Revenue Canada Customs and Excise
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THE CLEAN LAUNCH

How Revenue Canada Customs and Excise Implemented the GST

CANADIAN CENTRE FOR MANAGEMENT DEVELOPMENT
CENTRE CANADIEN DE GESTION

Canadian Cataloguing in Publication Data

Revenue Canada, Customs and Excise

The Clean Launch: How Revenue Canada Customs and Excise Implemented the GST

On cover: Canadian Centre for Management Development
ISBN 0-662-19786-0
DSS cat. no. Rv 31-32/1992E

Printed on recycled paper

Imprimé sur du papier recyclé

THE CLEAN LAUNCH

How Revenue Canada Customs and Excise Implemented the GST

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Customs and Excise
1992

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During the GST project, Mike Smith was seconded to Revenue Canada Customs and Excise from Industry, Science and Technology Canada (ISTC), where he had been Director of Taxation and Business Financing. While with the Excise GST Project Team, he was Director of Small Business in the Program Development Directorate. During the preparation of this history, Mr. Smith was attached to the office of the Excise Assistant Deputy Minister. He has since resumed duties with ISTC.

Foreword

The Goods and Services Tax is probably the most significant tax initiative since the introduction of income tax during World War I – and quite likely the most controversial. Although most Canadians will have strong memories of the bickering and antagonism that surrounded the implementation of the GST, it is likely that few are aware of the effort and complexities involved in implementing such an enormous initiative. Amidst the political theatre that was the last few months of 1990, Revenue Canada (Customs and Excise) was working hard to have the necessary people and processes in place by January 1, 1991.

This was a massive exercise, and it was Excise Branch which had the lead role in a project that demanded nothing less than total commitment from most of Customs and Excise and full cooperation from many other departments.

This book does not serve as a technical primer for setting up tax machinery. Nor does it tell the stories of the other departments, or of the people responsible for policy development, managing the legislative process, or educating the consumer. It is rather a record of the important lessons about a complex program implementation that Excise Branch can now pass on. The numbers give a glimpse of their story: from a comfortable and well known 75,000 businesses primarily from the manufacturing sector, the Excise clientele grew to 1.7 million registrants from all manner of businesses – almost 23 times their original client base. Add to this the fact that the GST was vastly different from the old Federal Sales Tax (FST). It applied to every sector of the economy. It was new both to Excise and to business. Implementation required new processes, policies, infrastructures, staff, technologies, and even physical facilities. The result for Excise Branch? A hard-won knowledge base about project management on a huge scale. Experience in managing massive organizational change involving structure,

culture, and even mandate. An education in dealing with the external forces generated by highly visible government initiatives with consequent political pressures and strong public opposition.

The Canadian Centre for Management Development is committed to providing Public Service managers with the knowledge they need to manage change, and we are delighted that our colleagues in Revenue Canada (Customs and Excise) have taken the time to record their experience so that all of us might learn from it. It is the lessons of real experience that are captured here. As you read this account, do listen to the subtext, to the voices of the people involved as they describe their worries, their loyalties, the choices they had to make, and the sheer hard work they put into this phenomenal achievement.

D.B. Dewar
The Principal
Canadian Centre for Management Development

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Chapter One: Introduction

January 1, 1991. 12:01 a.m.

"We have a clean launch!"

It's unlikely that anyone at Revenue Canada, Customs and Excise, actually said these words at that time. In fact, officials of the Department's Excise Branch, who were responsible for implementing the new Goods and Services Tax (GST), had definitely wanted a crisper and cleaner launch. Most were probably crossing their fingers instead of declaring victory.

However, the GST was now finally a reality. Canadians were starting to pay the new tax for the first time, some as they paid their taxi fares home from their New Year's Eve parties.

The GST: Characteristics of a Clean Launch

- Policy and regulations completed.
- Majority of potential vendors registered and educated about the GST.
- Staff, systems and accommodations in place to implement the tax.

And Customs and Excise had done its job. Over a million businesses were registered for the GST, and the number was growing in daily leaps and bounds. Information phone lines were available, and had been ringing off the hooks for days. The computers were humming. Dozens of different booklets, guides, and forms had been distributed in hundreds of thousands of copies, and were stockpiled for

anyone who needed them. Excise personnel, almost 5,000 of them, were trained and in place in 57 offices across the country.

The GST is the most significant Canadian tax initiative since Income Tax was brought in during World War One. The design and start-up of the tax had pre-occupied the government as a whole, and many departments and agencies had played crucial and substantial roles in the process.

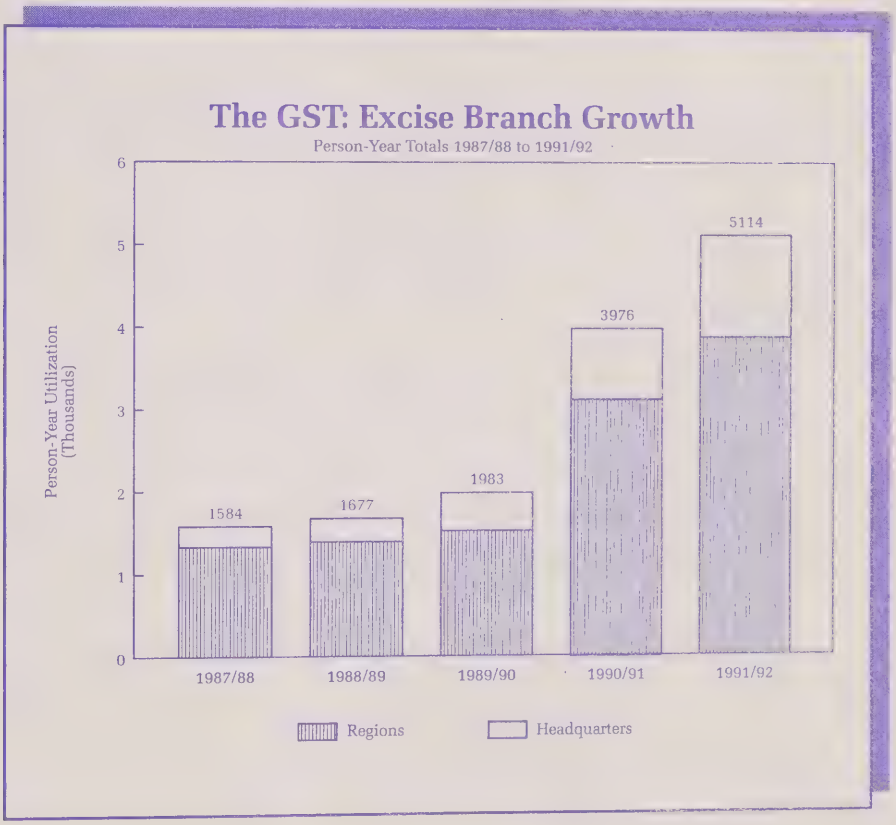
As for Customs and Excise, its job had been to set up – on time – the organization, systems and procedures needed to collect and administer the GST on an operational basis. This was the "clean launch", the Department's unwavering goal for almost three years. Indeed, these words, "clean launch", were probably repeated more than any others in the Department's management chambers during the last many months.

The project was huge. It required the whole-hearted commitment of most parts of Customs and Excise, and unwavering cooperation from many other departments. However, the Excise Branch had the lead role, and ultimately deserves credit for successfully managing one of the largest and most complex peace-time projects ever carried out by a federal department.

The following pages describe how the launch was accomplished. The story is told primarily from an Excise perspective, although hopefully in a way that captures the efforts and energies that were expended by the whole Department. The intent is to try to illustrate the management lessons that were learned during the project, both from the things that worked, and from the things that Excise would dearly love to do over again if it only had the chance.

But the story is not only about the GST as a project.

Before the GST, Excise was a closely knit, rather staid family of about 1,600 people, many of whom had spent their entire careers in the Branch. Now there are about 5,000 people, most of them newcomers, administering a totally new tax concept, in an environment massively dominated by shiny new computer technology. The organization itself has changed. And how Excise managed the GST project is also the story of how it managed this change.



In terms of time frame, our story focusses primarily on the build-up to January 1, 1991. However, this is not a rigid restriction. Much of what Excise means by the GST launch only began on that New Year's Day. Moreover, the launch's impacts on Excise will take some time to become completely clear. Accordingly, the discussion wanders well into 1991 when the author feels that it is useful to do so.

There are some things that this document is not. It is not, nor could it ever pretend to be, a technical primer in setting up new tax machinery. It does not try to tell the stories of other departments that were responsible for basic GST policy development, for managing the legislative process, or for educating the consumer. It does not try to describe, at least in any great detail, the efforts of other departments that were so crucial in Excise being able to deliver on the clean launch. These other agencies, it is assumed, will tell their own stories in their own ways.

With these limitations, what does the Excise GST story have to offer? After all, getting the tax off the ground was essentially a unique, one-time exercise. Moreover, many of the launch problems involved Excise-specific tax administration matters that most observers would find technical, obscure and not very exciting.

But this is too narrow a perspective. In fact, the GST start-up had many features that might very well be common to other public service management challenges. Thus, how Excise managed the clean launch may indeed offer useful lessons to others faced with any of the following:

- implementing a highly visible government initiative accompanied by intense political pressure and strong public opposition;
- successfully completing a very large project within a tight and inescapable deadline;
- rapidly and drastically expanding a small, closely-knit organization;
- developing a major computer system to automate a new program, at the same time the program is being developed, and in an organization with little systems experience;

- urgently acquiring and outfitting an array of new offices and facilities across the country;

- designing a major new program within a centralized headquarters organization, when the program will be delivered by highly independent regional offices;

- ensuring the readiness of the clients (many of them reluctant) on whom the program's success depends;

- coordinating the active cooperation of several other departments (including some that have to organize their own regional operations), whose help is crucial to project success;

- carrying out a substantial and technically complex program development process at the same time (and in some respects before!!) basic policy is still being written.

The following pages begin with a brief chapter on the GST itself, in order to get some sense of how big a challenge the project really was. This is followed by a pre-GST snapshot of Customs and Excise (particularly Excise); this sets the scene for the core of our story (Chapters Four and Five), which describes how the launch was carried out. Chapter Six then looks briefly at the "new" Excise – at what the GST project has done to the organization. Finally, the last chapter will try to summarize: to draw forth some management lessons and ideas from the project that may be of use to others.

Incidentally, the last chapter, Chapter Seven, is essentially a stand-alone summary. It provides a self-contained discussion of the project management lessons for the reader who may not have the time, inclination or interest to read the whole story.

Before going on, however, the reader is cautioned. The intent of this document is to try to tell the GST story in a coherent, organized fashion. What may be lost if this is done too successfully is a sense of the urgency, intensity, frustrations and excitement of the clean launch project. For Excise, the times really were interesting, in the full sense of the ancient Chinese curse.

Chapter Two: The GST: The Challenge

Introduction

On June 18, 1987, the Honourable Michael Wilson, Minister of Finance, released *The White Paper: Tax Reform 1987*. That document announced that the government was going to carry out a two-stage comprehensive revision of the federal tax system.

Objectives of Tax Reform 1987

- To increase the fairness of the tax system.
- To encourage industrial growth, competitiveness and job creation.
- To make the tax system simpler to understand and comply with.
- To bring about greater consistency within the tax system, and between the tax system and other government programs.
- To provide a more reliable and balanced source of revenues to the government.

Phase one was a package of changes made to the *Income Tax Act* in 1988.

Phase two of tax reform was to address what the White Paper called the "fundamentally flawed" federal sales tax (FST). The FST was to be replaced with a totally new "multi-stage sales tax" (MSST). This would be levied on sales of goods and services at all stages of the production and distribution chain, from the primary producer to the final consumer at the retail level.

In April, 1989, the government announced that the MSST option it had chosen was a federal-only Goods and Services Tax. The start-up date would be January 1, 1991.

Revenue Canada's Excise Branch was given the responsibility of starting up the new tax and administering it. To understand how Excise delivered on this commitment – and to get some sense of the management challenges involved – some background is necessary on both the GST and the FST. The GST represents **where Excise was going**, and is the core of this story. The FST indicates **where Excise was coming from**, in terms of the strengths, weaknesses and organizational attitudes that it brought to bear on the GST launch.

The Federal Sales Tax

Origins and evolution[1]

The FST, like Income Tax, can be traced back to the First World War. In 1915, the *Special War Revenue Act* imposed several new taxes, including stamp taxes on sales of proprietary or patent medicines, perfumes, and wine. These were the first federal "excise taxes" in Canada.

The next step towards the FST came in 1920. To cope with wartime and railway deficits and the heavy costs of military demobilization, the government introduced a new array of tax measures, still under the rubric of the *Special War Revenue Act*. One of these was a 1% tax on sales by manufacturers and wholesalers, and on the duty-paid value of imports.

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1 J.F. Telford, *A History of Federal Sales and Excise Taxes*, Revenue Canada, Customs and Excise (1983).

Like today's GST, this was a multi-stage sales tax. Manufacturers paid the tax on goods they used in their production processes, wholesalers were taxed on purchases from the manufacturer, and retailers paid the tax on their wholesale supplies. The tax stopped here, though: consumers were not taxed on their retail purchases.

The multi-stage feature of the tax was hotly debated over the next three years. The most controversial problem was "tax cascading", in that the full selling price of a good was taxed, even though that price would include any tax paid at earlier stages in the item's history. This "tax on tax" may have been good for federal coffers, but it was criticized for its impact on prices and its unequal effects on different types of businesses.

Several attempts (usually with rate increases!) were made to even out the tax's impact on different sectors. The tax quickly became very complex, with different rates for sales by manufacturers, wholesalers, or retailers. The rates further depended on whether the goods were imports, lumber or any other commodity.

In 1924, the tax essentially became the FST as we know it. The government dropped the offending multi-stage feature, and changed the tax to a **single-stage** manufacturers' sales tax. The tax was imposed only once in the life-time of each taxable product, and applied to the sale of a finished product by the manufacturer or on the import of a finished product.

Incidentally, today's GST critics would probably smile ruefully at why this original version of the FST was not imposed on retail sales. It appears that the government of the day felt that many retailers did not keep good enough records to allow the Crown to successfully collect the tax!

Between 1924 and 1990, the FST was modified countless times. (One change, in 1947, finally adjusted the name of the legislation from the "*War Revenue Act*" to the "*Excise Tax Act*"; this is the act that now governs the GST.) Rare was the federal budget, at least in recent history, that did not involve some adjustment with respect to FST rates, goods affected, and so on.

FST Collections: 1989-90

By Excise	**$(Millions)**
Region	
Atlantic	463.9
Quebec	456.9
Montreal	2,573.1
Ottawa	322.1
Toronto	7,334.5
Southwestern Ontario	2,063.5
Central	438.3
Alberta	919.5
British Columbia	945.5
	15,517.4*
Headquarters	0.2
	15,517.6
By Customs	2,960.4
Gross	18,478.0
Less refunds and drawbacks	709.8
Net	17,768.2

* Totals reflect rounding errors.

Source: Report of the Department of National Revenue for the fiscal year ended March 31, 1990.

As of April, 1989, the FST rates were: 9% for construction materials, 19% for tobacco and alcohol, and 13.5% (the "general rate") for other taxable goods. Some goods (e.g. clothing, footwear, most foodstuffs) were non-taxable, or "unconditionally exempt".

However, the FST had become much more complicated than just having different rates for different goods. Over the years, numerous legislative adjustments were made to previous modifications of earlier changes; administrative rulings and interpretations proliferated, as Excise officers across the country applied the law to countless types of sales transactions in an increasingly complex business world; and a wide body of case precedence arose as a result of court appeals by individual businesses.

By 1989, the FST was a patchwork of thousands of legislative provisions, court rulings and administrative interpretations. Many of these distinctions may look trivial and even amusing. However, a lot of money, and even the very existence of some businesses, depended on FST distinctions like the following:

- distributors of pet foods, cosmetics, candies, confectionaries, microwave ovens and home video equipment, as well as importers and vendors of new motor vehicles, were deemed by the legislation to be manufacturers, even though they did not actually produce the goods;

- bananas were not taxable; importing ripe bananas was not manufacturing; artificial ripening of green bananas was considered manufacturing, and domestic firms that did so were therefore exempt from paying FST on the equipment they used in the ripening process;

- athletic headbands were exempt as clothing, while athletic wristbands were considered to be taxable sporting equipment;

- colouring books were taxable, while comic books were not.

Despite this complexity, the FST was a major source of federal revenues. In fiscal year 1989-90, net FST returns were $17.8 billion, up from $15.7 billion in 1988-89, and $13.0 billion in 1987-88. In comparison, personal Income Tax revenues in 1989-90 were $51.9 billion, and corporate Income Tax returns amounted to $13.0 billion.[2]

Administering the FST: the nucleus of the GST

The Excise Branch has administered the FST since it was first levied,[3] and many of the Branch's GST programs and procedures are based on this FST experience. In fact, many of the basic activities involved in running the two taxes are fairly similar.

Under the FST, manufacturers applied to Excise for a sales tax licence. The Branch provided licensees with tax return forms that had to be filed with an Excise Regional Office for each reporting period (generally monthly), together with the correct amount of tax. Tax had to be remitted on the sale price of all goods manufactured in Canada, and on imports of manufactured goods, unless the goods were unconditionally exempt, or unless the firm was entitled to purchase them exempt. These latter "conditionally exempt"

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2 Income Tax administration is a larger government function than the GST. However, the Income Tax system has reached its present scale of operations after 75 years of evolution. The GST was going from a gleam in the government's eye to full operation in about three years.

3 The Department of Finance formulated FST legislative policy, while Excise administered the tax according to that policy. These roles remained the same for the GST.

goods were generally materials, equipment, and other commodities which the firm used in its own manufacturing processes.

Businesses could obtain rulings from Excise offices on the taxable status of goods, and on obligations and exemptions. Tax assessments could be appealed informally to the Branch, and more formally to the Branch's Appeals Directorate.[4] Further appeals were possible to the Tariff Board, the Federal Court, and ultimately to the Supreme Court.

Much of the Branch's day-to-day work included verifying and auditing returns, chasing delinquent filers, and prosecuting taxpayers for fraudulent practices and other offences.

As we shall see, these basic activities have been carried over, with variations, to the administration of the GST. However, it is worth noting that:

- the FST applied only to manufacturers; this meant that Excise's programs and procedures had to accommodate only about 75,000 businesses;

- because of the relatively small numbers involved, Excise had established, over the decades, a fairly close working relationship with its clientele; on the other hand, the Branch did not know a lot about businesses in the non-manufacturing sectors;

4 The Appeals Directorate was established fairly recently, in 1985, as a review mechanism independent from the rest of the Branch. Previously, there had been no formal processes to review taxpayers' protests, other than through the court system.

- the FST was a single-stage tax, which meant that only a limited number of sales transactions, and few purchase transactions,[5] had to be monitored;

- the tax was invisibly imbedded in the prices paid by consumers, which, in turn, meant that Excise itself was almost invisible to consumers.

Evolution of the GST

Complaints had long been rampant about the arbitrariness, anomalies, complexities, and inequities of the FST. There were repeated proposals for reform, including those of the Rowell-Sirois Royal Commission on Dominion-Provincial Relations in 1940, and the Carter Royal Commission on Taxation in 1966.

The GST evolved from the almost successful efforts to replace the FST with a wholesale tax. This exercise actually began back in 1969, when the *White Paper on Tax Reform* (like the most recent changes) promised that sales tax reform would follow Income Tax revisions.

The White Paper was eventually followed by a 1975 Department of Finance discussion paper, entitled *Federal Sales and Excise Taxation*. This document, often referred to as the "Green Paper", examined alternatives to the FST. The paper favoured a single-stage tax on sales to retailers by wholesalers or manufacturers.

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5 Companies' purchases of conditionally exempt goods, for use in their own manufacturing processes, had to be monitored.

This preference was supported in the 1977 *Report of the Commodity Tax Review Group* (also known as the "Brown Paper"). That group, a committee of officials from Finance and Excise, had analyzed almost 200 submissions on the Green Paper's proposals.

Finally, in November, 1981, the government announced that it would adopt the wholesale tax. Draft legislation was tabled in the House of Commons the following April, and the tax was to come into effect on January 1, 1983.

However, in October, just three months before implementation (and after a change in the Finance Minister), the new tax was put on hold. A subsequent study by a committee of outside experts (the "Federal Sales Tax Review Committee", or the "Goodman Committee") argued against the wholesale tax. The Committee suggested further interim changes in the FST, **and recommended that the government consider a value-added tax that extended to the retail level**. The wholesale tax was dropped.

This momentum for tax reform continued after the change in government in 1984. Early in the mandate, Finance Minister Wilson launched an internal government analysis of the "business transfer tax" (BTT). This was a form of value-added tax (extending to the retail level) where a business would be taxed on the difference between its total sales and its total purchases. Eventually, this idea was dropped in favour of the MSST option that Mr. Wilson announced in 1987, and that became the GST.

Two points are worth noting here. First, **fundamental** changes in a tax system (as distinct from the tinkering around the edges that had long characterized the FST) are

almost monumental events. They do not happen often, they involve a great deal of government soul-searching, and they generally provide a strong test of political will.

Less profoundly, but of more practical interest to our story, is the fact that the Excise Branch was intimately involved in all stages of the buildup to the GST during the last two decades. A core group of Excise officials participated in the wholesale tax and business transfer tax exercises, and are prominent among those responsible for launching the GST.

The GST: Why, What, How and When

Why? What was the GST trying to fix?

The GST attempts to remedy several of the FST's deficiencies. For example:

- The FST favoured imports over Canadian-made goods. Marketing and distribution costs are usually included in the selling prices of Canadian manufacturers, and were thus subject to the tax. These costs were often not incurred on imports until after the goods had entered the country, and **after** the FST had been collected. Importers thus gained a pricing advantage. The GST is intended to put everyone on the same footing (and, not surprisingly, was strongly supported by the Canadian manufacturing industry).

- The FST drove up domestic production costs. Although production machinery and equipment were FST-exempt, the tax was hidden in the prices of many goods (e.g. furniture, buildings, supplies) essential to business operations. Moreover, because the tax "content" differed for different goods, the FST's cost

impact varied from business to business and from sector to sector. The GST is neutral with respect to production costs.[6]

- The FST only applied to about one-third of the goods and services consumed by Canadians. This caused price distortions and biases in the economy that were due solely to taxation. It is worth noting in this context that the service sector was almost non-existent when the FST was established. This sector is now a major part of the economy, but was largely untaxed under the FST. The GST is intended to be sector-neutral.

- The FST was becoming a more and more uncertain source of revenue to the government. This was partially due to all the exceptions and special situations. Moreover, administrative uncertainty had increased dramatically in recent years, due to mushrooming court challenges.[7] The GST is meant to create a more predictable tax landscape and to thus be a more reliable source of funds.

- The FST was essentially invisible to the consumer. It was almost impossible to determine how much tax was imbedded in the price of any article or service. The GST is intended to be more visible.

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6 By removing the FST impact on production costs and import preferences, the GST was expected to help improve Canadian business competitiveness in the new free trade environment with the United States. As well, GST is not charged on export sales.

7 For example, recent FST court cases heard arguments that: candles produce heat and should therefore have the same FST exemption as heating fuels; the non-taxable status of electricity should be extended to batteries, since they are boxed electricity; facial tissues could be exempted as health goods instead of being taxed as cosmetics.

What?
The GST:
basic principles and a sampling of complexities

The GST is a multi-stage value-added sales tax. This means (exceptions aside for the moment) that the tax, at its current rate of 7%, applies to every sales transaction between businesses, and between businesses and consumers.

The tax is thus not limited to manufacturers. GST applies to sales by all types of businesses, including wholesalers, retailers, government agencies and the hundreds of thousands of businesses in the service sector (e.g. barbers, taxi drivers, advertising agencies).

To show how the tax works, consider the manufacture and sale of a chair. The furniture factory pays GST on the lumber it buys from the sawmill; it also pays the tax on any other expenses involved in making the chair (e.g. nails, machinery, heat, electricity, rent, legal services, etc.). The factory collects the 7% tax on its price when it sells the chair to the wholesaler. The wholesaler, like the factory, pays GST on its other business expenses. This process is repeated when the chair moves on to the retail store. Finally, the consumer is charged 7% GST on the chair's final selling price.

The only thing missing so far is the concept of the input tax credit (ITC). If every purchase at every stage in the production chain were taxed as just described, there would be a cascading of tax on top of tax, and a much higher price when the chair is finally sold at retail. However, under the GST, a business can claim an ITC for the tax it pays on its own purchases. In practice, the company simply remits to the government the difference between the GST it collects on its sales and the GST it pays on its expenses (in other words, the tax applies to the value added by the company). In the above

example, the furniture factory remits the difference between the GST it collects from the wholesaler, and the GST it pays on lumber, heat, light, etcetera.[8]

From this very basic GST description (and still forgetting exceptions), it is easy to see some enormous administrative implications relative to the FST:

- the transactions of all businesses are now taxable, not just those of a small fraction of the economy;
- all businesses now become tax collectors on behalf of the government;
- because of the ITC mechanism, a business's tax obligation requires knowing **not only** the total sales **but also** all of the business's taxable expenses.

Moreover, the GST is not quite so simple. Inevitably, for reasons of practicality and equity, various complexities were added to the structure of the tax.

It is neither possible nor necessary to describe every facet of the tax in these short pages. However, it is worth looking at a few wrinkles to see how quickly the administrative complexities multiply. For example:

- Not everything is taxed in the same way. Some items are "zero-rated", or taxed at zero per cent. The seller (or "vendor", in GST terminology) does not collect tax on these items, but may still claim ITCs on related taxable

8 If ITCs exceed GST collected, the firm is entitled to a rebate of the difference.

expenses. Zero-rated items include foodstuffs,[9] or "basic groceries" (but not **all** foodstuffs: see following list), prescription drugs, many medical devices, and exports (regardless of the nature of the goods).

Some Foodstuffs Taxable at 7%

- Candies and confectionaries.
- Snack foods like potato chips and popcorn.
- Salted nuts or salted seeds.
- Granola products (but not cereals).
- Single-servings of ice cream and puddings.
- Cakes, pies and other sweetened baked goods sold in single servings in quantities of less than six.
- Carbonated beverages.
- Alcoholic beverages.
- Prepared foods and beverages sold for immediate consumption.
- All foods and beverages sold through vending machines.

- Some items (see following list) are "tax-exempt". Vendors do **not** charge GST on these sales, **but are not entitled to ITCs** for the GST that they pay on their related expenses (in effect, the value-added is not taxed).

9 One consequence of this is that most farmers and fishermen end up in a perpetual rebate situation. Their sales are almost all zero-rated, and many of their purchases are taxed at 7%. Thus, their ITCs usually exceed the GST they collect.

Some GST-exempt Items

- Resale housing.
- Long-term residential rents.
- Medical and dental services.
- Child daycare.
- Bridge and ferry tolls.
- Legal-aid services.
- Educational services.
- Many financial services.
- Municipal transit.
- Most goods or services provided by charities.

Implications: Many, many businesses (especially grocery stores, convenience stores and pharmacies) buy and sell a mixture of zero-rated and 7%-taxable items. As another example, banks provide mostly exempt services, but some activities (e.g. safety deposit box rentals) are taxable at 7%. These variations create for businesses (and ultimately for Excise) a requirement for bookkeeping practices that record the GST status of everything they buy and sell. As well, each exception or variation inevitably raises a host of questions about definitions and boundaries.[10]

- Businesses with annual taxable sales of $30,000 or less are considered to be "small suppliers". They can choose whether or not to register with Excise and collect the GST from their customers. If they do not register, they cannot claim ITCs on their taxable business purchases.

10 In the early days of January, 1991, one senior GST administrator was overheard to joke that "single servings of yogurt may be the Achilles heel of the whole GST". Initially taxable at 7%, single servings of yogurt have since been made zero-rated.

Implications: This eliminates any GST administrative burden from the smallest businesses (e.g. craftspersons selling occasional products from their homes). For Excise, there are fewer accounts to handle. On the other hand, Excise has to monitor when a business ceases to be a small supplier, and when it is has to send its first GST return to the government.

- Businesses have different filing periods (i.e. how often they must remit the GST they collect), depending on their annual taxable sales (see table). This reflects a balance between prompt government collection of most GST revenues, and reduction in the administrative burden on businesses where it is possible to do so.

GST Filing Frequencies and Options

Annual Taxable Sales and Revenues	Assigned Filing Frequency	Optional Filing Frequency
More than $6,000,000	Monthly	Nil
$6,000,000 or less	Quarterly	Monthly
$500,000 or less	Quarterly	Monthly, or annually (with quarterly remittance of tax)

Implications: Excise has to keep track of the reporting periods of each of 1.7 million businesses. More critically, it has to gear the paper-flow, banking system, and notification and collection procedures (e.g. when do we start chasing ABC Company for a late quarterly payment?) to these periods.

- Vendors have other options beyond filing frequencies. Altogether, there are 24 such "elections", some open to all registrants, and others specific to public service bodies, corporations and financial institutions, and unincorporated organizations. Several others relate to certain specific business situations.

Some GST Elections

- Choice of fiscal year for GST purposes.
- Separate GST filing by business branches or divisions.
- Simplified GST accounting for small businesses.
- Exemption from GST of assets sold when a business changes hands.
- Simplified GST accounting for charities and non-profit organizations.
- Exemption of service charges between closely related financial institutions.
- Election regarding GST obligations of a joint venture.

Implications: Some elections are available to large numbers of businesses, while many others are rather obscure and of limited application (e.g. election by a co-operative to not treat patronage dividends as price adjustments). Nevertheless, Excise must design the necessary forms and other explanatory and administrative documentation, and make them available to all potentially eligible businesses. Moreover, Excise systems and procedures have to be designed to accommodate all these variations.

Yes, but what does it all mean?

So much for our brief sampling of variations, exceptions and complications. Just what was Excise's job?

Here, in bare-bones terms, is what Excise had to do to launch the tax and keep it going:

- contact and register almost every business in Canada;
- develop easily understood information describing all aspects of the tax and how it will be administered;
- make sure that all registrants had this information in time to adjust their accounting systems, train their staff, collect the tax fairly, and remit the right amount to the government;
- develop an understandable tax return form, and provide a copy to every registrant before every filing period;
- develop forms for all elections and provide them to eligible registrants;
- set up procedures so that registrants can remit the tax through financial institutions;
- establish banking procedures so that the Branch itself can deposit remitted tax monies and also issue rebate cheques;
- develop policies and procedures to identify and pursue delinquent filers, audit tax returns for completeness and accuracy, and prosecute fraudulent and criminal behaviour;

- design and implement a one-time transition program to provide rebates to businesses for the FST already paid on inventories on hand on January 1, 1991 (in order to prevent double taxation);

- design and implement programs to provide rebates to tourists for GST on certain (but not all) of their purchases, and to compensate agencies like hospitals, universities and charities, for a portion of the GST on their operating expenses;

- acquire and set up the facilities and equipment to send out all necessary documents and to process incoming tax returns;

- acquire and program the computing facilities necessary to automate everything above;

- recruit and train the large numbers of staff needed to do all of the above, and in a way that was sensitive to the government's employment equity and official languages policies;

- acquire and outfit the buildings needed all across the country to accommodate the above staff and equipment;

- define the relative roles of Headquarters, Regions and Districts in all of the above;

- **do all of the above by January 1, 1991!!**

Moreover, the Branch also had to keep the "old tax" running right up until January 1. But, since many FST personnel gradually moved over to work on GST preparations, these

FST duties had to be divided among heavily depleted staff numbers (and with many of these being new and inexperienced).

Some of the "tax machinery" activities listed above are conceptually similar to FST administrative processes. However, there are two crucial differences: numbers and newness.

The numbers are huge. For example, the first national mail-out of registration forms in April, 1990, went to 1.9 million addresses. To further illustrate, when the GST is fully operational, Excise expects to have to track over 900,000 registrant changes per year (e.g. business births and deaths, change of owner, etc.). In fact, the number of business births and deaths in a year (about 300,000) is **four times** the total number of clients that the Branch had under the FST!

An additional numbers issue stems from the very nature of the tax. The GST is a multi-stage tax. This means that, unlike the FST, both a business's sales **and its purchases** are part of the tax equation. This simple factor of two, combined with the ITC concept, magnifies the complexity of Excise's job far beyond simply scaling up FST procedures to handle a much bigger universe of clients.

One result of the numbers, of course, is that the computers have taken over. It would simply be impossible to administer the tax if every step in the whole chain of events were not as automated as possible. The systems program will be discussed in more detail later, but it is worth noting here that its 5-year price tag (for development costs and ongoing operations) is just over $500 million!

Processing your GST return: where would we be without the computers?

The numbers also have a profound influence on program design philosophy. For example, in 1989-90, the Branch devoted 924 person-years to "verification and enforcement". If the same Branch/client ratio were carried over to the GST, Excise would need about 21,000 person-years for its audit program alone! Thus, the FST-to-GST transition involved far more than just scaling up the FST audit and enforcement program. It necessarily required a total rethinking of issues like audit objectives, frequency and depth of audits, criteria for choosing firms to be audited, public visibility of audit and enforcement activities, and procedures, methods and working tools to be used by audit staff.

Some GST Statistics
Expected Volumes at Maturity

Registered vendors	1,600,000
Registrant changes	925,000
Tax returns (monthly/quarterly)	9,400,000
Vendor enquiries	1,100,000
Refund claims	
Tourists	250,000
Other	475,000
Collections cases	857,000
Appeals	12,000

Other statistics on the GST and on Excise's start-up efforts are scattered throughout this document. But one crucial set of numbers will be repeated several times in this document. The Branch grew from about 1700 to 5100 person-years, **all in the space of three years**. The mind of any seasoned public administrator will likely boggle at what this meant in terms of organizational design, job descriptions, recruiting, and simply finding places for people to sit.

The newness of the GST is the other complication. Some of Excise's planning required some very difficult predictions. For instance, no one could possibly know for sure how quickly businesses would register, how many telephone calls Excise hot lines would receive and when, or how many FST rebate claims would be received in the first quarter of 1991. But systems and procedures had to be planned, computer programs written, people hired and trained, and facilities acquired on the basis of this guesswork.

The other thing that was new was the **content** of the tax – new to the thousands of Excise recruits, new to all of the businesses in Canada, and new to Canadian consumers. Moreover, as we shall see later, the content was not only new, but its final details were being sorted out almost until start-up.

The implications here were substantial. Excise personnel clearly had to be experts in the legal and administrative details of the tax if they were going to put it into operation, and if they were to handle the enquiries of an uncertain and often hostile group of clients. Moreover, if businesses are to accurately collect and remit the tax, Excise had to make sure, as far in advance as possible, that these businesses actually understood what they were doing.[11] These education processes – internal and external – were major undertakings, and will be described more fully in a later chapter.

How and when? The passage of the GST legislation (or, "Will we ever get Royal Assent?")

The government's 1989 budget announced that the studies were over: the *Excise Tax Act* was to be rewritten to abolish the FST and establish the GST. The new tax would come into effect on January 1, 1991.

The next twenty months were filled with consumer outrage, bitter complaints by many businesses, seemingly unending representations by individuals and groups seeking special treatment or helpful fine-tuning, and inescapable media commentary that ranged from the thoughtful to the hysterical.

11 In fact, one problem that bedevilled the early days of GST operations was that it was impossible to guess in advance how many registrants (even among those who understand the tax) would fill out their return forms in unpredictable ways.

As political theatre, the GST debate has rarely been equalled in Canada. The government went to the political mat in creating the emergency Senate seats necessary to get the bill passed on time. Opposition politicians, and some provincial governments, seized every opportunity to prolong the debate, and in the waning weeks of 1990, the final Senate sessions assumed unprecedented levels of fury.

The uncertainties of the legislative process seriously complicated life at Customs and Excise. The Department was at the "tail-end" of this process. Its systems, forms, administrative procedures and efforts to educate the business community about the GST depended vitally on the exact details of what was in the legislation. While Excise staff stayed in close touch with Finance officials on the administrative implications of new policy wrinkles, the bottom line was that the agenda was outside of Excise's control.

However, passage of the legislation took far longer than anyone had ever guessed. From the very start, Excise planning for the clean launch was founded on there being a full year between Royal Assent and start-up. **In the event, the Branch had two weeks!**

Key GST Legislative Events

- **June, 1987 –** Government announces intent to adopt multi-stage sales tax.
- **April, 1989 –** Federal Budget announces 9% GST to replace FST on January 1, 1991.
- **August, 1989 –** Government releases Technical Paper giving GST details.
- **October 10, 1989 –** Speaker's ruling on Government's GST ads.
- **October, 1989 –** Draft GST legislation released.
- **December, 1989 –** Second Technical Paper released; GST to be 7%, instead of 9%.
- **January, 1990 –** Legislation tabled in House.
- **April 10, 1990 –** Legislation passed by House of Commons.
- **December 11, 1990 –** Legislation passed by Senate.
- **December 17, 1990 –** Legislation receives Royal Assent.
- **December 18, 1990 –** Governor-in-Council approval of most regulations.
- **December 21 & December 27 –** Others approved.
- **January 1, 1991 –** GST comes into effect.

Moreover, as long as the law had not passed, its contents were not frozen. Inevitably, there were temptations to make changes, refinements and improvements. And the government continued to make adjustments (which were incorporated in regulations) right up to (and even after) Royal Assent.

The "Speaker's ruling" was another unexpected Parliamentary event. This was the judgement by the Speaker of the House of Commons on October 10, 1989, as to whether a recent government GST advertising campaign (saying that the GST **will** be law on January 1, 1991) had infringed on the privileges of MPs. The Speaker said it was "difficult to find **prima facie** contempt". However, he branded the ads "objectionable", and strongly cautioned the government and public servants not to act in a manner that pre-supposed the will of Parliament.

The Speaker's Ruling: Some Practical Impacts on Excise GST Planning

- An aggressive campaign, **insisting** that businesses register early, was not possible; Excise could only **encourage** voluntary registration.
- Commitments of permanent GST employment could not be made to secondees to Excise from other departments.
- The permanent GST organization could not be finalized.
- Systems development was troubled by contractors objecting to contract provisions being made "subject to legislative approval".
- Forms, publications and advertising had to refer to all aspects of the tax as "proposed", or wording to that effect.

From then until Royal Assent, all of Excise's preparations were haunted by the worry as to whether the spirit of the Speaker's ruling was being violated. Essentially, the ruling allowed **planning and preparation** for the tax; implementation and administrative activities could not begin until Royal Assent (which was finally received on December 17, 1990).

Two additional issues added to Excise's GST challenge.

The first was harmonization of provincial sales taxes with the GST. The government's initial intent (in 1987) was to proceed with a single national sales tax (NST). This would replace both the FST and the retail sales taxes in place in all provinces except Alberta.

However, by 1989, NST negotiations with the provinces had still not reached a successful conclusion, and the GST was announced as a federal-only initiative.

But that was not the end of the story. The concept of having separate federal and provincial sales taxes was criticized on the grounds that retail businesses (especially small ones) would face a confusing and costly multiplication of accounting and paperwork burdens.

Thus, even though the full NST concept had been temporarily shelved, there remained a continuing interest in integrating the two levels of sales taxes and simplifying their administration. Accordingly, bilateral harmonization discussions continued between the federal government (i.e. by the Minister of Finance and his officials) and several of the provinces.

Ultimately, in August of 1990, a formal Memorandum of Understanding (MOU) was signed by the Minister of Finance and his Quebec counterpart. The Province was to adopt a multi-stage sales tax whose base would be "substantially" harmonized with the GST. Quebec would administer **both** this new provincial tax **and** the GST, beginning in January, 1992 (since postponed to July, 1992).

Later, in February, 1991, another MOU was signed with Saskatchewan. The provincial sales tax would be harmonized with the GST, also beginning in January, 1992. This time, the federal government would administer both taxes. However, after a provincial election in October, the new Saskatchewan government cancelled this initiative.

These events put a major crimp in Excise's plans. Since mid-1989, Excise officials had insisted to their Finance colleagues that a crisp January 1 GST start-up assumed a federal tax only. Any program and system development detours to prepare for provincial harmonization would severely strain available staff. The launch might be less clean.

However, harmonization by individual provinces was seen to be an important step in moving towards the desired NST. The agreements with Quebec, and later, Saskatchewan, were struck. And, somehow, Excise had to mobilize its already severely stretched staff resources to take on a new and complex set of system and program development tasks.

In the case of Quebec, this complexity was enhanced by the fact that Quebec was to administer the two taxes, **not** Excise. This meant that Excise had to make sure that Quebec's systems, procedures, and processes will allow it to administer the GST in the same way that Excise administers it elsewhere.

The Quebec initiative also involved another fundamental problem for Excise. Since the two taxes were to be run by the Province, a fair and mutually agreeable way had to be found to transfer Excise employees in Quebec to the provincial civil service.

Quebec Harmonization: A Summary

- GST remains unchanged: to be governed by the *Excise Tax Act*, as in the rest of Canada.
- Quebec sales tax (PST) to become multi-stage tax, with Input Tax Refunds similar to GST Input Tax Credits.
- PST base broadened to become "substantially" the same as the GST; services to be taxed, as well as goods.
- However, no PST on goods for resale and on sales out-of-province; no PST on purchases from outside province unless vendor registered for PST; financial services to be zero-rated under PST, but exempt under GST.
- Ministère du Revenu du Québec (MRQ) to administer both GST and PST; Quebec GST registrants to deal with MRQ and not Excise.

Another major GST "mini-project" arose out of the same 1989 federal budget that set the GST in motion. As a deficit reduction measure, the government announced that it was going to close several military bases. This dealt serious economic blows to some of the communities involved, and concerted efforts were made to find alternative federal assistance.

The GST was one of the few growth areas in government that could offer relief. In May, 1990, the Prime Minister announced that Summerside, Prince Edward Island, which had been badly hit by a base closure, would be the home of the new GST returns-processing centre. The centre is scheduled to open in 1993.

Summary: The Project Environment

This, then, is what was facing Excise as it set about to launch the GST. Instituting the tax was a major task, by either public or private sector standards. The GST involved a conceptual break from the past for the Branch, the business community and the consumer. It involved a twenty-fold scale-up in the Branch's client base, covered just about every type of buyer-seller transaction in the economy, and had to go from square-one to full operation in a very short period of time.

The GST launch was probably the number-one government priority. This meant that Excise would get lots of support. Resource requests were unlikely to be refused unless they were outrageous and totally unjustified. Senior officials in departments and agencies that Excise would have to call upon for help would undoubtedly provide enthusiastic backing and commitment.

But the high priority and political sensitivity of the project had down-sides. The public environment was marked by hostility and mistrust. No one **really** knew what was going to happen when the tax hit the fan: pundits were predicting chaos in the market place, and some towns were threatening to set up tax-free zones. Not surprisingly, the "centre" (e.g., the Privy Council Office) had an intense interest in Excise's implementation progress. The media were everywhere. Arm chair quarterbacks abounded.

Moreover, the ground under Excise kept shifting, sometimes very suddenly. The requirements to accommodate provincial harmonization were added. The legislation kept getting later. Many policy and interpretational issues remained in flux until the very end. And, inevitably, the complexity of the task grew.

Chapter Three: Customs and Excise Before the GST

Introduction

Before examining how Excise tackled the GST launch, it may be helpful to look at what the Branch, and the Department as a whole, had to bring to the project.

Clearly, Customs and Excise had substantial strengths, or it would never have been trusted with a project that was so large, so significant, and so fundamental to the agenda of the government of the day.[1] The Department also had certain weaknesses that either had to be corrected or at least managed around.

A Bit of History

Customs and Excise is one of the oldest government departments.[2] Indeed, collection of customs duties was one of the earliest organized government activities in the colonial period. The first such duty in what is now Canada goes as far back as 1663, when a 10% revenue tax was imposed on the sale of goods that had been imported from France. Other types of customs duties and excise taxes (for example, a 1751 Nova Scotia excise tax on liquor) appeared at different times in the new-world colonies that now comprise Canada.

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1 Although, as we shall see later, that trust was not automatic, and the Department had to convince others that it could do the job.

2 McIntosh, David; *The Collectors: A History of Canadian Customs and Excise*; NC Press Limited (in cooperation with Revenue Canada, Customs and Excise, and Supply and Services Canada); Toronto (1984)

Revenue Canada, Customs and Excise HQ: the Connaught Building.

In actual fact, few sources of revenue were available to the early governing authorities other than customs and excise levies. Wresting control of these levies from colonial administrators in England was a recurring theme in the movement towards responsible government in the first half of the nineteenth century. As well, control and organization of the customs function was a source of continuous friction in the debates that led to the union of Upper Canada and Lower Canada in 1840.

At Confederation, separate Ministries for Customs and for Inland Revenue (to collect excise duties) were established. The two departments were merged in 1918, and the name was changed to Customs and Excise in 1921.

Income Tax collection, which began in 1917 under the Department of Finance, was moved to Customs and Excise in 1925. The Department's name was changed to National Revenue a year later, and "commissioners" were appointed for each of the three functions: Customs, Excise and Income Tax. In 1943, the commissioners were replaced by the current arrangement of two Deputy Ministers, one responsible for Customs and Excise, and the other for Taxation. Both departments report to the Minister of National Revenue.

Customs and Excise: The Pre-GST Facts

Customs and Excise is a medium-sized department. In 1988-89 (the last year before new GST resources began appearing), the Department's budgeted resources were 9,577 person-years and $481.7 million. (By comparison, Taxation had 20,861 person-years and $1.07 billion.)

Customs and Excise is responsible for one "program" delivered through three "activities". These activities are: Customs, whose management is divided between two Assistant Deputy Ministers (ADMs); Excise, which is under a single ADM; and Corporate Administration, which provides common support activities (e.g. administrative and facilities support; systems planning and development; personnel administration; etc.) for the Department as a whole. The organizational structure and resource distributions for these different activities are shown in the diagram on the following page.

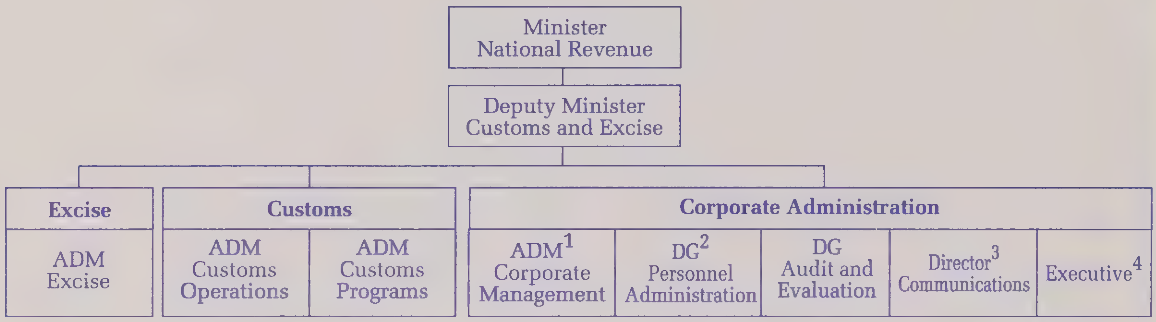
Excise Before the GST
Revenues Collected: 1989-90

Item	**Amount $(Millions)**
Excise duties	2,130
Federal Sales Tax	15,518
Gasoline tax	2,173
Aviation and diesel fuel tax	406
Other excise taxes	1,089
Telecommunications tax	152
Softwood lumber export charge	60
Air Transportation Tax	494
Total collections	**22,021***

* Total reflects rounding errors.

Source: Revenue Canada Customs and Excise, 1991-92 Estimates Part III, p.48.

Customs and Excise Before the GST (1988-89)



Resources	$(000)	$(000)	$(000)	$(000)	$(000)	$(000)	$(000)	$(000)
Excise ($76,237; 1,515 py)	76,237							
Customs ($332,329; 7,243 py)		312,188	20,141					
Corporate Administration ($73,174; 819 py)				46,742	16,368	4,882	1,800	3,382
Total Expenditures								
$481,740	76,237	312,188	20,141	46,742	16,368	4,882	1,800	3,382
Person-years								
9,577	1,515*	6,875	368	448	230	68	19	54

[1] Included DG Systems Planning and Development (SPD). On April 1, 1991, SPD became the Information Technology Branch, under its own ADM.

[2] Now ADM Human Resources.

[3] Now DG Communications.

[4] Legal Services; Internal Affairs; Departmental and International Affairs.

* Budgeted person-years for 1988-89 were 1,515; actual person-year utilization for 1988-89 was 1,677.

Source: Revenue Canada, Customs and Excise, 1988-89 Estimates.

Within the Department, Excise was clearly junior to Customs in terms of size. Its pre-GST budget (1,515 person-years and $76.2 million) was about one-fifth that of Customs.

Excise Before the GST (1988-89)

Function	Percentage of Resources Used
Tax interpretation	20.3
Revenue collection	11.9
Verification and enforcement	54.1
Appeals	0.8
Policy and systems	3.4
Program management and support	9.5
	100.0

The Branch's primary responsibilities are to administer the *Excise Act* and the *Excise Tax Act*.

The largest source of revenues under the *Excise Tax Act* is (or was) the FST. However, the Branch also collects excise taxes on: gasoline, aviation and diesel fuel; telecommunications services; cigarettes, cigars and other tobacco products; wine; jewellery; playing cards; automobiles; and several other items.

Under the *Excise Act*, the Branch collects duties on the production of beer, spirits, cigars, cigarettes and other tobacco products. Total excise duties collected in 1989-90 amounted to $2.1 billion. The Branch also administers the Air Transportation Tax on behalf of the Department of Transport, and (until its recent repeal) the 15% charge instituted in 1987 on the export of certain softwood lumber products to the United States.

To understand the GST launch, it is necessary to understand the Excise structure. The Branch is highly decentralized. Its programs are delivered through nine Regional Offices, which in turn were responsible (prior to the GST) for 27 District and Sub-district offices distributed across the country. The vast majority (more than 80%) of Excise personnel are "in the field". They are the people who deal with the Branch's clients: they collected the FST and Excise duties; they issued FST licenses; they provided interpretations of the legislation to taxpayers; they chased late returns and audited the accuracy of companies' remittances. And they will deliver the GST.

Excise Before the GST
The Regions: 1988-1989

Region	**Person-year Utilization**
Atlantic	73
Quebec	81
Montreal	251
Ottawa	70
Toronto	342
Southwestern Ontario	205
Central	108
Alberta	117
British Columbia	156
Total Regions	**1,403**
Headquarters	274
Total Branch	**1,677**

Excise Headquarters in Ottawa provides functional direction to the Regions. This means that Headquarters has no "hands-on" tax collection responsibilities; rather, Headquarters staff develop policy, program and procedural directions for the Regions, and monitor overall program operations. This role remains the same under the GST.

Doubts: Could Excise do the GST Job?

So much for the cold, hard facts about Customs and Excise. These say little, though, about the abilities of the organization to take on the task of setting up the GST and managing it on a day-to-day basis.

Indeed, senior Department executives indicate that Finance and other central agencies were doubtful at first as to whether Excise could deliver on time. As well, even though Excise knew the weaknesses of the old system, there was a risk that the weaknesses might be perpetuated by placing the Branch in charge of the GST. For a while, there was a real possibility that the new tax would be "assigned" to Taxation, particularly when the business transfer tax option (which is administratively closer in concept to Income Tax) was still on the table. These doubts persisted even after the BTT was dropped. Nevertheless, as we shall see, Excise had been working hard – and, in the end, successfully – to establish its credibility.

The Auditor General probably made it harder for Excise to dispel these doubts. In his 1989 report to the House of Commons, the Auditor General pointed to several "existing weaknesses and problems" in the Branch's management of the FST that needed "to be analyzed and corrected for the new tax administration".

The report actually had a one-two punch. It received a lot of publicity when it was first made public in October. Then, four months later, in February, 1990, when GST preparations were in full swing, the criticisms were publicly resurrected when the Auditor General appeared before the Commons Standing Committee on Finance ("the Blenkarn Committee"). Responding to Committee questions, the Auditor General worried aloud whether

Excise could hire and train enough people on time. He also expressed concern about the loss of tax revenues from any "slippage" on Excise's part.

The Auditor General's 1989 Report: Excise Branch

- Excise enforcement activities have slipped and should be increased.
- Performance and compliance information are inadequate and are poorly shared within the Branch.
- Administrative practices have made it more difficult to maintain consistency in rulings and interpretations.
- Training is weak and needs to be improved.
- Excise is not up to date in the use of information technologies.

As we shall see later, careful planning and hard work allowed Excise to fend off these doubts. Certain characteristics of the organization were critical to this success.

Excise Strengths and Weaknesses on the Eve of the GST

Knowledge and experience: A crucial factor in Excise being able to silence its doubters was its credibility in the commodity tax field.

The Branch had administered the FST from its inception. More than anyone else, Excise officials were aware of the problems, quirks and inefficiencies of the old tax. Excise managers and staff were visibly proud that they were able to "make the FST work". However, the decrepit structure of

the FST clearly bothered the professional sensibilities of many in the Branch. Accordingly, Branch officials were enthusiastic and key participants in the almost continuous initiatives over the last two decades to replace the FST.

Moreover, as we shall see in greater detail later, the Branch was very aggressive and thorough in turning this knowledge into a detailed, credible and workable GST implementation plan.

But Excise's FST experience also represented a certain weakness. The Branch had an excellent understanding and rapport with its FST licensees. However, those businesses make up only a small fraction – less than 5% – of the GST registrant base. The Branch went into the GST with little knowledge about the other 95% of its expanded clientele.

The Excise "family": Excise officials were proud of their organization. In many ways, the Branch was a family – relatively small (at least in professional and managerial numbers), closely knit, organizationally stable, and with fairly low staff turnover from year to year. Historically, a very high percentage of Excise professionals (compared to other federal public servants) spent their entire careers with the Branch.[3] Moreover, even though there was relatively little out-migration, managers often developed a broad base of expertise by moving between Region and Headquarters assignments, and from one area of tax administration to another.

As a result, Excise was "light on its feet". It could mobilize itself quickly and effectively. Informal communications networks were extensive and so effective that the organization (at least to immigrants from other agencies)

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3 In the words of the Excise ADM, Richard Fulford, "At the beginning of the GST project, almost every group in Excise could call on a couple of 20-year people." Mr.Fulford himself was a 35-year man (23 years with Excise and the rest with Customs).

relied remarkably little on paper-flow as a managerial wherewithal. People knew and trusted each other. They respected their colleagues' abilities, and generally took an honest collegial approach to problems and issues. Excise managers and staff tended to be more loyal to the organization and to each other than is often the case elsewhere within the public service.

And the Branch had an extremely strong work ethic – at all levels from senior managers to clerical staff. Senior Excise executives invariably express pride and gratification (as well as relief!) at the capacity and willingness for sheer hard work that was the ultimate key to the successful GST launch.

But all families have their weaknesses, and Excise is no exception. For example, the same managerial compactness that allowed easy and quick mobilization of resources meant, of course, that resources were limited. There really were few managers to throw into the GST breach, and a fairly small number of key people thus had to carry crushing workloads over an extended period of time. The overall level of commitment and enthusiasm seems to have held off significant levels of illness and stress-related problems. However, the GST Project Director, Mike Burpee, has quite genuinely observed that "we were very lucky that no one died during the project".

Another strength that was also a weakness was the Excise "oral tradition" mentioned above. The GST project was a major, complex undertaking, and its management could not rely on casual reporting and monitoring procedures. The organization's tendencies towards informality made it harder to introduce more rigorous and formal management systems.

The Excise family also has a certain "wait-and-see" attitude towards outsiders. It tends to take some time for newcomers to feel completely at home in the Branch.[4] And many such newcomers, at all levels, had to be recruited for the GST start-up, and to staff the much larger Excise organization that will operate the tax on a day-to-day basis.

Accompanying this insularity was a certain resistance to change, although this was probably more apparent below the senior managerial levels. At these senior levels, the GST was welcome because it improved the tax system. For some, the project also offered broadened career prospects. However, FST staff were seeing the work with which they had long felt comfortable being replaced by something new, controversial and unknown. At least a few approached the experience with a measure of unease. And part of that unease had to do with technology.

Technology: As we noted earlier, the Auditor General thought that Excise was lagging in the introduction of computer technology. Senior Excise managers tend to agree, and they cite automation and systems development as one of the organization's major GST challenges.

This is not to say that Excise was totally computer illiterate. A pilot project (the "Clientele Profile System"), undertaken in the Southwestern Ontario Region from 1985 to 1987, had led to a decision to develop the Excise Commercial System (ECS). This system links over 600 terminals in Headquarters and across the country, allowing them to automate a variety of operational and managerial tasks (e.g. licensing; revenue accounting). Work on ECS began in 1988, and the system was completed in 1989.

4 As one GST Director put it, "It takes a long time to get credibility in Excise".

ECS is much smaller in concept and scale than the GST system. However, ECS did represent a timely beginning of "systems thinking" by Excise management. As well, some of the lessons learned in ECS planning were useful in GST systems development.

ECS also involved establishing a small dedicated systems group within Excise. Previously, the Branch had relied totally on Corporate Management's automation group for computer support. With ECS, the Branch had the nucleus of its own systems expertise, a more knowledgeable base from which to express its needs to the Corporate systems group, and, perhaps less happily, the seeds of a more competitive relationship with Corporate systems.[5]

The Branch thus had an embryonic systems capability. Nevertheless, it is still fair to say that the Branch did not have the broad systems experience or mind-set to allow it to comfortably face the massive automation that was absolutely crucial to GST implementation. Moreover, whatever computer orientation Excise had was centred primarily in Headquarters; the Regions, where the GST would be delivered, were far less systems-oriented.

But the hard fact was that, in a year and a half, the Branch was going from handling 75,000 clients to dealing with 1.7 **million.**[6] In these circumstances, the tried and true FST procedures, most of them manual and paper-based, were obviously totally inadequate.

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5 It should also be noted that many individuals in both the Excise and Corporate Management systems groups had been part of the earlier project to establish the Customs Commercial System, a national system to computerize many Customs operations.

6 Initial projections were that there would be 1.6 million registrants. As of January 6, 1992, there were 1,737,741.

A babe in the woods?: One Excise characteristic that proved to be both a strength and a weakness was a certain naivety.

Excise was a tax administration agency. Its programs were almost invisible to the public eye. To be sure, almost every federal budget announced adjustments to the FST or to the various excise taxes on liquor and tobacco. However, the brief flurry of publicity that usually accompanied these changes focussed on the Finance Minister; Excise generally remained in the background.

This does not mean that all was bureaucratic sweetness and light. Excise and Finance officials had their share of interdepartmental battles on various points of FST policy and administration. Indeed, these were becoming more frequent as the tax became more of a patchwork. Nevertheless, the point still stands that Excise was not normally in the political, policy or bureaucratic spotlights. This was before the GST.

The Branch mind-set is probably best summed up by this observation from the ADM: "I thought that, once we were told to deliver the GST by January 1, 1991, we could go away, work on the program, and reappear with an operational tax by January 1."

In other words, Excise was not really expecting the supercharged year and a half in which:

- Ministers – not just their own, but the Prime Minister and the entire Cabinet – were pre-occupied with the new tax;

- there was intense hostility on the part of the public, most of whom fully expected the tax to be an onerous burden;

- the success or failure of the government in assuaging this public hostility would have a major impact on the Branch's launch preparations;

- policy adjustments were being made right up until the last moment, despite the Branch's practical operational requirements;

- central agencies and other involved departments were constantly demanding assurances that Excise was on the ball;

- the media, seemingly, could not get enough of the GST.

To put it bluntly, Excise was in for a major shock!!

However, innocence often carries its own protection. The observation has been made, both by the Deputy Minister and also by senior managers who have joined the Branch from outside, that not knowing the political and bureaucratic storms they were facing meant that Excise was undaunted. They simply put their heads down and did what they had to do, when other "more worldly" public officials would have been rather more perplexed.

Summary: The Organizational Environment

Customs and Excise had a lot going for it when it took on the GST project. The Excise Branch had a long history as an organization. It was a very closely knit group with a high degree of trust up and down the line, and a collective pride in its very real professionalism. The Branch knew the commodity tax field, and had been very active in the initiatives of the last two decades that led to the GST.

Excise could also call upon key staff functions in place elsewhere in the Department. Many of these units had played a successful role in other fairly large projects (e.g. implementing the Free Trade Agreement). There was also a nucleus of Branch and Departmental experience in systems development projects.

But there were also organizational challenges. The Minister, the Deputy and the Excise ADM were relatively untested in this sort of endeavour. Indeed, senior Excise management generally were not used to dealing in the sort of hothouse politically-charged environment that surrounded the GST, and were not used to "working the system".

Excise's informal management style had worked in the good old FST days. It also helped in mobilizing staff to tear into the GST project with enthusiasm. On the other hand, this informality was not really consistent with what would be needed to manage the project or the much larger organization that would emerge from it. Also, the Branch was not really used to change, and how to manage it.

Looking at the project itself, Excise had quite a weak knowledge of the vast majority of its new clientele, and had only an embryonic sense of computer systems that paled in comparison with the impending GST systems challenge.

But, in the end, one of the dominant factors was the Branch's collective sense of purpose. In many ways, the GST job was a mission for Excise, and the Branch went into the project with what seems to have been an unusual collective blend of enthusiasm, commitment and energy.

Chapter Four: How the Launch was Managed, or "What is the Drop-dead Date?"

Introduction

In these next two chapters, we come to the heart of our story. How did Customs and Excise "get from here to there"? How did the Department turn the announcement of GST intentions into a living, breathing tax?

This chapter takes the broader view: it looks at the overall management of the launch by Excise, and by the Department as a whole. The next chapter goes into a bit more detail on different program streams, to see how some of the trials, tribulations and challenges of the launch were actually handled.

The Task

For Excise, the GST launch was actually **three** simultaneous tasks:

The first was the start-up. Here, the job was to manage the changeover from the FST, and to make sure that the basic infrastructure was in place so that Canadian businesses would start collecting the new tax as 1991 began. The goal was the clean launch.

The second task was what Excise officials **really** mean when they talk about GST "implementation". This is the day-to-day operation of the tax by a purposely-designed, mature organization, using tried and debugged systems and procedures. In this sense, GST implementation only began

on January 1; it won't really be complete for at least another three years. But a major part of getting the tax off the ground on January 1 was designing the new organization (the "new Excise"), and the systems and processes required for full GST operation.

Finally, throughout the whole exercise, Excise still had to maintain "business as usual". The Branch's other tax and duty programs remained in effect, and had to be managed with undiminished integrity and efficiency. And this included the $18 billion dollar FST. The "old tax" remained in place until the moment the GST was born, and all of the activities associated with it had to be accommodated by the Excise organization that was working mightily to complete its demise.[1]

Before going on, though, it is important to put these tasks in their broader context. First of all, Excise had the very clear responsibility to get the GST up and running, and to keep it running. The Branch was **not** responsible for developing basic GST policy, for drafting the legislation, or for the bureaucracy's share of moving the legislation through Parliament: these jobs belonged to the Department of Finance, the Privy Council Office and the Prime Minister's Office. Moreover, the Excise role (despite occasional pressures to the contrary) was **not** to educate consumers about the GST; that was the responsibility of Consumer and Corporate Affairs and, eventually, the GST Consumer Information Office (CIO).

And it should not be forgotten that the first public act of GST implementation fell to Revenue Canada Taxation. This was the establishment of the GST tax credit for lower-income Canadians. Credit cheques started going out immediately

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1 Indeed, FST became rather more of a challenge in its waning days than anyone expected. Some businesses appear to have adopted more innovative "last-chance" approaches to the tax, on the apparent assumption that Excise vigilance would be relaxed.

after Royal Assent in late 1990, but Taxation had put credit forms into the 1989 Income Tax return package a full year earlier.

Excise's job, then, was to set up the GST and to run it thereafter.

But there was no way that the Branch could do this on its own. The GST launch, while Excise was clearly at its core, was a Department-wide and government-wide project of rare magnitude and complexity. And a major component of the challenge for Excise – and for the senior management of Customs and Excise as a whole – was to orchestrate this effort.

Let us now turn to the launch. The following pages look at the GST start-up under three general headings: planning; organization; and external relationships.

Planning

Clear, crisp, rigorous planning was crucial. Excise was particularly meticulous and forward-looking in its GST planning. Arguably, the launch would otherwise have been a disaster.

The deadline

However, the Department had no say over one of the most important elements in the planning process. Senior Departmental managers, from the Deputy Minister down, unanimously agree that the fixed start-up date (i.e. January 1, 1991) was crucial to the success of the project (although most managers and staff did curse the deadline, at least once or twice!)

January 1 was soon. January 1 was fixed.

The result may occasionally have been less deliberation or less consultation than Excise might have liked on any given issue. But, overall, the rigid deadline gave an intense focus to all activities, encouraged innovation and stimulated the relaxation of many of the usual bureaucratic constraints. Any new development or untoward event was evaluated and addressed in terms of how to meet the deadline. There was constant contingency planning around January 1, and a management phrase that was used almost as often as "clean launch" was "When is the drop-dead date?" (i.e. the very last day that an activity had to be carried out if it were not to threaten the January 1 start-up).

And the **fact** of January 1 was trumpeted without let up, publicly by the Minister, the Honourable Otto Jelinek, and internally by everyone on the management team. Every rumour of delay – and there were many in the press and the odd few in Revenue Canada corridors – was denied as quickly and as forcefully as possible. Work simply could not be allowed to slow down.

Past FST history was a bit of a worry here. Many Excise staff remembered the wholesale tax. Not only had it been nearly adopted, but FST personnel had already been trained to administer it. There was thus something of a sense of "having gone pretty far down the aisle before, without getting married", that had to be guarded against. So, from the very beginning, senior management's message was to never, for one minute, doubt January 1, 1991.

The Blue Book

Probably the single most valuable thing that Excise did to guarantee its GST success was to prepare the "Blue Book". This was the report of the "Commodity Tax Review Group" entitled, *Multi-Stage Sales Tax: An Implementation Plan.* Senior Excise officials value the Blue Book, not only as the essential GST plan, but also as a cornerstone of their credibility. It allowed the Branch to overcome its doubters, and gave it the "inside track" when the final decision was made as to which organization would be entrusted with the new tax.

Work on the Blue Book began in January, 1988. This was after the June 1987 announcement that a multi-stage sales tax would replace the FST, and well before the April 1989 choice of the federal-only GST option. The Review Group reported to a committee of Deputy Ministers from Finance, Taxation, and Customs and Excise. Crucially, its work was organized and managed by Mr. Stuart Watson, an Excise Director General. Participants were from Excise, Customs, Taxation, and various Customs and Excise corporate support units.

The Review Group's mandate was to prepare a comprehensive and detailed implementation plan for the new tax. The plan was to be adaptable to any of the MSST options then being considered (i.e. a federal-provincial National Sales Tax; a federal-only GST; and a federal-only value-added tax with more exemptions and more rigorous invoicing requirements than the GST). In the end, though, the Blue Book was directed primarily at the two federal-only alternatives.

The Blue Book was finished in July, 1988. It lays out all of the steps needed to go from square-one to a fully operational tax administered by a mature, stand-alone (but unnamed)

organization. The plan covers a full five years: 6 months of "preparation" and 12 months of "development" prior to start-up, followed by "implementation" and "mature" phases of 24 and 36 months each.

Program Elements Outlined in the Blue Book

Operational Program
Registration
Taxpayer visitation
Information/education
Taxpayer enquiries
Returns and payments processing
Audit
Collections
Imports and exports
Refundable sales tax credit
Tourist refunds
FST rebates
Appeals
Investigations
Financial administration support

Corporate Requirements
Accommodations
Human resources program
Organization and classification
Staffing
Human resource planning
Staff relations
Employment equity
Official languages
Training

Systems
Systems development

Importantly, this was all related to a deadline. Every element in the plan was tied to the implementation date (referred to as "I"). Requirements had to be met by "I minus 3 months", "I plus 2 months" and so on. When the Blue Book was written, "I" was not known. But when, finally, "I" became January 1, 1991, the Blue Book became a living, breathing plan.

The plan begins with what have proven to be amazingly accurate projections (developed with Taxation's help) of the likely taxpayer population, by sales volume and district office. From there, it outlines a five-year schedule for each required element (see following list). Each of these elements, in turn, was broken down according to: basic program;

program approach; goals; scope; costs (person-years, salaries, O&M, capital); implementation milestones; and time frames for cost buildups.

The Blue Book also proposed a structure for whatever organization was to administer the tax (be it Excise or another group), and discussed requirements for interdepartmental co-operation. It even proposed a draft tax return form.

The Blue Book plan was based on a number of key assumptions. These are sufficiently informative that they have been reproduced below.

Blue Book Assumptions

- Implementation will occur 18 months from a decision by the government on the form of tax to be implemented.
- The legislation will receive Royal Assent 12 months prior to implementation.
- A separate decentralized organization will administer the tax.
- Each office will perform as a minimum: audit, compliance and information functions.
- Customs will collect tax on imports.
- Systems will be developed on the basis of a stand-alone system which is compatible between Customs/Excise/Taxation.
- There will be a centralized master data bank to which all offices will have access.
- Returns will be received and recorded on a decentralized basis.
- There will be access to appropriate Taxation data for planning purposes.
- "Fast-tracking" will be available for staffing, procurement and accommodation.

Most of these conditions were met. The major and most disrupting exception was that Royal Assent occurred 14 days before implementation, instead of 12 months before. A fundamental deviation from a program point of view was an early decision that tax returns would be handled on a **centralized** rather than a decentralized (i.e. in the Regions) basis. As well, Excise opinion varies, depending on individual perspective, as to how much "fast-tracking" occurred for staffing, procurement and accommodation.

The Blue Book clearly established Excise's credentials to handle the GST task. Almost as important is that the Blue Book was the beginning of a coordinated Customs and Excise approach to the tax. Customs, Personnel Administration, Corporate Management (including Systems Planning and Development) and Communications Branches, were all full partners in the Review Group. These units were thus in on the planning almost from day-one, and knew what the job involved.

Once the government decided to proceed with the GST as such, the Blue Book was utterly invaluable. Inevitably, there were changes in the various planning elements as events unfolded over the next year and a half. However, the plan was a good enough blueprint to allow program managers to begin more detailed work right away. It also served to "prime" other key departments (particularly Public Works and Supply and Services) for their eventual involvement in the project, since they had been consulted extensively during development of the plan.

The Blue Book also provided the basis for some critical Excise "pre-investment". Between completion of the plan in July, 1988, and the government's go-ahead decision in April of 1989, Excise got as much of its act together as possible so that it could hit the ground running. In particular, the Branch:

- prepared floor plans and specifications to house the Headquarters GST team together in one place (Headquarters staff were scattered among four buildings at the time); this allowed the Branch to start working with Public Works on the new accommodations as soon as the green light was given;

- began drafting a Treasury Board submission so that project needs (including additional complement) could be tabled right away;

- identified exactly what had to be done in the first thirty days so that work could begin instantly after the go-ahead.

The final point to be made about the Blue Book is that it was the starting point for the next document in the planning spectrum, the "Red Book".

The Red Book

The Blue Book was the basic functional plan for GST implementation, and was a sort of Headquarters Bible. The "Red Book" focussed on the tax where it really happens: in the field.

This document, entitled *Guide for the Regional Implementation of a MSST*, was prepared by three of the Excise Regional Directors. It was intended "to provide Regional Directors with information sufficient to enable them to give thought to what they would need to do in their own Region immediately any announcement is made to proceed with a multi-stage sales tax".

The Red Book set out the basic roadmap for the Regional Directors (or "RDs", to use Excise shorthand). It briefly outlined the programs (e.g. registration, audit, etc.) that were going to be developed by the functional managers in Headquarters. More critically:

- for each individual Region,[2] it identified an organizational structure, person-year numbers by program stream (e.g. audit, collections) and classification levels; this organization was to remain in place for three years after start-up; job descriptions would be written centrally in Headquarters;

- it prescribed a standard office concept to be used throughout the country (elaborating on an idea in the Blue Book).

The RDs could not go beyond the standard office lay-out and specified organization. Within these constraints, they had freedom to organize and manage local implementation as they saw fit.

These limitations addressed two important concerns. The first was to limit natural tendencies for each Region to go its own way. Unchecked, this could mean that the mature Excise/GST Branch might wind up with nine differently structured Regions. The likely results would be inconsistent program delivery, and confusion in staffing and human resource development.

A second consideration was speed. There was simply no time for the inevitable and interminable arguments about new job descriptions and classification levels. (This was no

2 There were thus actually **nine** Red Books.

trivial matter either, as some Regions would be expanding threefold within twelve to eighteen months.) Similarly, the standard office concept saved an immense amount of time and effort by allowing furnishings to be procured for the entire GST organization by means of a single tendered contract.[3]

From the process point of view, the Red Book exercise had a lot of credibility. It was done by RDs for RDs. The plan represented four months of dedicated full-time deliberation (mostly in Ottawa) by a group of three of the RDs. They were Mr. Robert Tittley (Montreal Region), Mr. Pierre Gagnon (Quebec) and Mr. Clarence Taylor (Alberta), although Mr. Tittley had already been named Director General of Field Operations for the start-up project. This meant that he had Headquarters responsibility for monitoring the Regions' progress.

The Excise ADM, Mr. Richard Fulford, gave the "three wise men" a lot of autonomy. In particular, they did not have to get the explicit agreement of their other Regional peers on their proposals. Their collective views were deemed to be generally representative of the RDs, and the only formal "approval process" that they had to go though was to obtain the ADM's agreement. This they did in February, 1989, when they brought forward the assumptions, observations and recommendations that formed the core of their plan.

The ADM accepted almost all of the group's proposals. Probably the most significant item he rejected was a suggestion that the number of Regions be adjusted to bring about a better balance in terms of size. This would have generated a lot of controversy, at a time when all energies were needed for the GST task.

3 One result is that, while the furnishings are of excellent quality and the latest in ergonomic design, all GST offices across the country look the same!

The Red Book was finalized in March, 1989, and was discussed in detail with all the RDs in April and May. In other words, the Regions had the outline of what they had to do, within a week or two of the April GST announcement.

The Red Book process was not painless. Many tough and fundamental decisions had to be made, as the authors grappled with what would be good for the project and for the organization, and what they themselves would like and have to live with in the years ahead. Moreover, some of the processes were not nearly as easy as they sound. For example, the central writing of generic job descriptions eliminated a lot of argument, but when pen was eventually put to paper, the odd heated debate still arose.

And, not surprisingly, not all of the RDs agreed with everything that the Red Book's authors had produced. A particular sticking point for some was that the Regional and District organizational schemes in the Red Book were to remain fixed for three years after start-up.

Moreover, some RDs felt that the Red Book was too vague. The document did provide terms of reference, but it was clearly an "implementation guide", rather than an "implementation plan". It provided the bare bones of the task, but it did not provide a critical path, and it said very little about "how to" or about program delivery standards. The other side of this argument, though, is that, once they were given the Red Book, the RDs were also given a very substantial degree of independence as to how they could then get on with putting the tax in place. They "owned" a major part of the GST.

The Master Plan

The Blue Book and the Red Book gave Excise an early and solid planning framework for the GST launch. A third planning document, usually called the "Master Plan", was a much more detailed project management tool. Its usefulness is perhaps more debatable.

Master Plan Framework

Stream Plans	Component Plans
• Legislation and policy	Policy and legislation Industry consultation
• Registration programs	Initial registration Ongoing registration
• Information/education programs	Visitations Vendor enquiries Technical information Technical seminars
• Revenue accounting programs	Returns and payments Processing centre
• Compliance assurance programs	Audit Investigations Appeals GST rebates Visitor refunds Collections
• FST transition	FST rebates
• Systems	Planning and administration Acquisition and facilities Office systems
• Accommodations	Accommodations acquisition Accommodations fit-up Accommodations H.Q.
• Human resources	Planning and administration Organization transition Field organization design Field staffing Field training
• GST implementation (i.e. management)	Project planning and control External planning and reporting Steering committee support Functional organization

This document, which was actually titled, *GST Implementation Plan*, can be traced to the summer of 1989. At that time, Excise engaged a major consulting firm to do a "risk assessment" of the GST computer systems planning which had been under way since late 1988. The study identified certain potential problems that extended beyond the systems area. The main concern was that "there was a need for revision and strengthening of the GST project planning and management process". In other words (referring back to the last chapter), the historically informal Excise management style needed to be buttressed.

As a result, the consultants were asked to assemble an overall master implementation plan, and to develop a project management system and process. This Master Plan was submitted to the ADM in November, 1989.

The Master Plan (see the previous table) divided the GST launch into ten "stream plans" (an eleventh, publications, was added later). In turn, each of these was supported by a number of "component plans", which were further broken into activities and "deliverables" (for instance, the vendor enquiries plan involved 34 different deliverables). For each activity, the Master Plan identified the responsible managers, delivery time frames (using GANTT charts), and interdependencies among the various activities.

At first, the Master Plan listed about 750 activities and deliverables. However, this number gradually grew to about 2,000. In other words, at the height of the launch preparations, Excise was working feverishly on about 2,000 items that were large enough and important enough for senior management to track.

The Master Plan was codified in a computer software program (called "Viewpoint"). This allowed senior management to monitor the whole suite of activities, and identify problems or bottlenecks in one part of the program resulting from delays in other parts.[4]

Operationally, the plan depended on periodic reporting by the responsible managers. These reports assessed progress, up to that point in time, against a planned schedule for each of the 2,000 activities.

Probably the most useful aspect of the Master Plan, at least to the Department's senior executive, was in its preparation. The process of constructing the Plan involved all the various activity managers. It forced everyone to focus on the details of what they had to do. It also required them to identify the interdependencies of their respective streams on deliverables to and from other streams. And, perhaps most crucially, the process reinforced managers' "ownership" of their respective tasks.

The Plan also helped to provide comfort to the Minister, and to central agencies, that the project was under control. This was far from a negligible consideration, given the urgency and complexity of the task, and the prevailing political environment. Finally, the Master Plan should provide a useful framework for any retrospective reviews of the project, for example, by the Auditor General.

But the plan has its critics. Some activity managers remain less than complimentary about how it was actually used. They cite what they saw as irritating reporting requirements, and out-of-date, inaccurate or too-detailed activity specifications.

4 That there was a lot of scope for bottlenecks and confusion is seen, for example, in the fact that the 50 activities in the "audit" component were distributed among the management responsibilities of no fewer than **twelve** Headquarters Directors.

In reality, of course, many of the activity managers had already been working to the more general specifications of the Blue Book for over a year before the Master Plan appeared. It is probably not surprising, then, that they sometimes saw Master Plan reporting to be more of a "jump-through-the-hoops" paper exercise than a real one.

Planning: Re-capitulation and principles

The last few pages describe the key planning documents and processes that Excise used in its overall management of the GST launch. However, this was not the whole of Excise GST "planning".

The managers of most of the project streams inevitably had to carry out their own planning exercises at higher levels of detail, and to set up their own feedback and monitoring processes. Some of these streams (e.g. systems development) are probably worthy of separate case histories in their own right. Some will be examined more fully in the next chapter.

What is important to note, though, is that clear, comprehensive, and **early** planning characterized how Excise tackled the GST launch. The Department's senior executives unanimously agree that this was absolutely critical. It gave Ministers, as well as departments, a measure of comfort that Excise was able to stay on top of the job. Internally, it allowed a running start on a project that was too large and complex, and whose time frames were too short, to allow a slow start or any dithering along the way.

The effectiveness of this forward planning made it far easier to deal with legislative delays and other perverse twists and turns (for example, a court case in early 1990 over tenders for the tax returns processing centre). "We need a contingency plan", was a very frequent request from the Deputy, the ADM and the Project Director. These urgent requests most assuredly caused a lot of heartburn and long working hours on the part of hundreds of people. However, the organization's abilities to recognize the need for them, and then to respond quickly, owes a lot to the context and reference points provided by the initial planning frameworks.

A Few GST "What-ifs?": Autumn 1990

What if the postal negotiations fail and there's a strike?

What if the threatened strikes by government auditors or computer system operators actually occur?

What if we have a stampede of vendors wanting to register at the last minute over the phone or in the lobbies of Regional and District offices?

What if we run out of certain publications and forms?

What if lots of vendors simply refuse to register?

What if businesses refuse to collect the GST?

What if there is large-scale consumer refusal to pay?

What if some policy issues still are not settled until a few days before launch?

What if there is a serious system failure? What if something happens that totally disables the computer system or the processing centre?

Indeed, as the launch grew near, contingency planning became an extremely "pro-active" activity. During the fall of 1990, the entire GST Project team systematically, program-by-program, drew up a list of "what-ifs?". What if such-and-such a thing happened? What effect would it have on the remaining "drop-dead" dates? What effect would it have on the crucial post-launch days of January and February, when we still can't predict business and consumer GST behaviour? And what can we do about it: to prevent it, or to be ready for it?

As a useful aside here, the following box lists a number of conditions that Excise thought, in mid-1989, were essential to meeting the January 1991 target date. The Department was insistent in interdepartmental discussions that deviation from these conditions would threaten the "clean launch". In time, most of the conditions were broken.

Assumptions for a January 1, 1991 Launch

- Decisions on administrative/procurement issues will not be delayed.
- There will be no major changes to the scope of the program (e.g. a National Sales Tax).
- There will be no changes to administration of the program (e.g. some provinces to collect the tax).
- Third reading of the legislation will allow registration and vendor education to begin no later than March, 1990.
- There will be no delays in the legislation, and no changes in its content prior to Royal Assent.
- Refinements and improvements will occur starting **January 2**, 1991.

Three final observations about planning.

First of all, there is no need to re-invent the wheel. Excise carefully looked at precedents in other countries. In particular, New Zealand had just established a GST which was very similar to the planned Canadian tax, and Excise officials consulted very closely with their New Zealand counterparts on what to do and not to do. This was most valuable, indeed, and Excise's only regret is that it did not follow up in more detail with New Zealand (say, half-way through the project) when it had a better "real-life" feel for how the preparations were going. The value-added taxes of several European countries (especially the United Kingdom) also offered a number of early policy and planning lessons,[5] while the idea of having decentralized returns-and-payments processing was reversed after consultations on a new system in Texas.

Secondly, it pays to involve managers in the planning process. Excise very deliberately required the various program managers to take an active part in developing the plans described above. This was vital in working out the actual **content** of the plans. It also led to clearer and more purposeful management of the activities defined in the plans. This introduces the concept of "ownership", which will be discussed more fully in following sections.

Thirdly, planning means little without feedback on how well things are going. Master Plan reporting provided one such mechanism. Another tool was a series of "Bi-weekly Reports", prepared by the GST Secretariat (see below), which provided the Minister, the Deputy and senior Departmental staff with a summary update on where things stood.

5 Particularly influential in this regard was an "insider's" book (*A Tax Shall Be Charged*, by Dorothy Johnstone) on the introduction of the British VAT. The author was a senior public servant who had played a key role in setting up the VAT, and her observations were carefully studied for possible GST planning lessons by the Deputy Minister, the ADM and other senior Excise managers.

More broadly (as we shall see later), several internal and external committees continually monitored the project, so that senior officials from all the departments concerned had a current sense as to how well or how badly things were going. And there was also "stocktaking".

Stocktaking sessions were meetings convened by the Deputy Minister, Mrs. Ruth Hubbard, to determine exactly where the project stood at the time. At these sessions, the Deputy and her senior managers (from Excise and the other involved Branches) heard reports from activity managers on the status of various parts of the project, and on what remained to be done. The concept was particularly useful, in that it reserved time for the Deputy and her senior officials to step back from the unending swarm of day-to-day problems, and to get an overview of the project. The sessions produced concrete results. They helped the Deputy and the project team to re-focus activities, take corrective action and anticipate future problems. The first stocktaking was held in March, 1990, and three more were held in later months as the launch date loomed near.

A final feedback issue that caused some occasional scrambling was the incessant need for statistics. The visibility and political intensity of the GST required continual and **consistent** statistical reporting – on number of businesses registered, staff members trained, phone enquiries handled, and a host of other items. Excise had foreseen this requirement, at least to some extent; however, the real needs (especially for near-real-time reporting) were probably under-estimated.

Organization

This section examines how Customs and Excise organized itself to bring the GST into being. It is **not** about the permanent GST organization, but about the transitional team that launched the tax and planned the permanent Excise/GST structure that is now being fleshed out.

The Minister and the Department

The first organizational requirement was for an open, honest and productive relationship between the Minister and the Department.

The intense political pressures surrounding the tax meant that the Minister, the Honourable Otto Jelinek, could afford absolutely no doubts about the Department's preparations, and about whether or not he was getting "the straight goods". On the other hand, the Department needed strong, consistent Ministerial direction. Inevitably, too, there would be interdepartmental developments where the Department had to be able to rely on the Minister's support.

There were weaknesses here. For example, the Deputy Minister was new to the Department; indeed, she was fairly new to Deputy Ministerial ranks. Moreover, as mentioned earlier, senior Excise staff were relatively inexperienced in the high pressure politics-and-policy milieu that they were facing.

But the relationship worked. Some of this was clearly due to personal chemistries. Some was due to the Department's honesty in predicting that there would, inevitably, be mistakes and problems, but that the same mistakes and problems would not happen again. Some was due to the Minister's willingness to accept these mistakes when they happened, and to his consistent public enthusiasm and support for the Department's efforts. In fact, the Minister's obvious enthusiasm was a source of real staff encouragement. A good illustration is the highly appreciated visit that he

made on New Year's Day to the Calgary office, when most staff were spending their holiday trying to cope with the crush of work surrounding the launch.

And some of the success was because the Deputy took direct action. Throughout the project, Mrs. Hubbard continued to worry about the effectiveness of the Department's communications with Mr. Jelinek and his office. Part of the solution lay in the role of a special advisor she retained early in the project (more about the special advisor later). As well, in June of 1990, a senior staff member from the Department's Communications Branch was assigned to the Minister's office to deal with GST matters, and nothing but GST matters. This role combined communications duties with those of a departmental assistant, and helped to cement close and effective day-to-day relationships between the Department and the Minister.

The people at the top

The GST launch required strong leadership within the Department. At the beginning of the project, Customs and Excise may have seemed a bit vulnerable in this area.

The Deputy Minister, Mrs. Hubbard, was admittedly not well-versed in the technical aspects of commodity taxation. Fairly new as a Deputy, she was less well-placed in the government's GST decision-making apparatus than she would have liked. For instance, while she was a member of the interdepartmental Deputy Ministers Steering Committee which coordinated overall GST efforts within the bureaucracy, that committee was chaired by the Deputy Minister of Finance.

Gradually, though, as Customs and Excise efforts became more central to the evolution of the GST, the Deputy's influence expanded. In the spring of 1990, she assumed the chair of the Deputies' GST Steering Committee. As January 1 approached, she also began reporting on progress towards the launch at senior interdepartmental meetings chaired by the Clerk of the Privy Council. And Mrs. Hubbard also became an observer at meetings of the Cabinet Committee (the "Ad Hoc Committee of Ministers") on the GST; this helped to keep the Department plugged-in to policy decisions, and usefully increased the visibility of both the Deputy and the Department.

Another thing that the Deputy did was to recognize the demands which the GST was about to make on her. Accordingly, she "cleared the desks", at least to the extent that she could, by delegating some of her Customs and departmental duties to other members of her executive staff. She was now able to focus more fully on the GST.

The Assistant Deputy Minister of the Excise Branch, Richard Fulford, brought a different background to the GST project. Mr. Fulford was a career-long tax administrator, but he had little experience in the type of heated interdepartmental politics that would inevitably surround the GST. He openly admits that he was happily unaware of what was about to hit him!

From where the Deputy sat, though, Mr. Fulford offered two crucial assets. First, he is widely respected in the professional tax community, a community that would be watching GST preparations with a collective magnifying glass. Second, and of absolutely fundamental importance, is that he commands the highest degree of loyalty from managers and staff throughout the Excise organization. Ultimately, these were the people who would be launching the tax, and their enthusiasm and commitment were essential.

The Deputy Minister obviously had other options, like recruiting an Associate Deputy to head up a separate GST task force. However, in the end, she clearly affirmed the ADM's responsibility for the project. Mrs. Hubbard has since said that this was one of her best GST decisions. Others obviously agree. The Prime Minister has recently presented Mr. Fulford with the highly prestigious Outstanding Achievement Award of the Public Service of Canada.

Planning, planning, planning – meetings, meetings, meetings.

Overall, the GST launch seems to have been blessed by an effective, and perhaps unusual, combination of leadership skills at the top. Some of the managers interviewed during this study praised what they saw as a highly propitious blending of the personal skills and styles of the Deputy and the ADM. In particular, they cite the synergies and overall team strengths created by the combination of the Deputy's strong intuitive and interpersonal skills and the ADM's technical and administrative authority. The result seems to have been a sense of considerable confidence in the project's collective leadership.

The Headquarters Project Team

Excise took a project management approach towards GST start-up. The organizational core was a transitional Project Team that was set up in Headquarters. Treasury Board approved the team's mandate and structure, as well as its initial resource requirements, in July, 1989, three months after the GST announcement.

The Project Team was a temporary structure only. Its job was to put the GST in place. It was also to set up the new Excise organization that would then administer the tax on a permanent basis.

At first, the ADM headed the Project Team on a full-time basis. He placed his other responsibilities (i.e. for administering the FST and other excise tax and duty programs), in the hands of an Acting ADM (Mr. Ken McCammon)[6] for the duration of the GST project.[7]

However, as the project gathered momentum, and as the need grew for more rigorous day-to-day managerial monitoring, there was a change.

Late in 1989, the ADM effectively split his role in two, by naming Mike Burpee "GST Project Director". Mr. Burpee, an Excise Director General, was to provide general direction to the project and ensure horizontal integration of the many project activities. Mr. Fulford's instructions were that he and Mr. Burpee were to be regarded essentially as one

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6 Mr. McCammon eventually joined the Project Team as Director General for Policy and Legislation, and his FST responsibilities were assumed by Mr. Clare Veinotte.

7 The need to maintain the FST was an important factor in deciding on the project approach to the GST launch. Separating FST administration from Headquarters GST planning guaranteed that the "old tax" would continue to receive its share of individual attention until its January 1 demise.

person.[8] This included approval authorities. Mr. Burpee's approval on any issue **was the same as the ADM's**. This was a deliberate recognition of the size of the task ahead. It was also a highly practical way of limiting the likelihood of decision-making bottlenecks on those occasions (and there would be many) when Mr. Fulford was otherwise somewhat occupied.

The other Project Team members (most of whom were long-time senior Excise employees) are listed on the following page. There were some movements among the individuals involved, between the time when the team was formally announced in November, 1989, and the formal establishment of the permanent "new" Excise/GST organization on April 1, 1991. However, the basic structure remained more or less constant, except for the addition of units responsible for the Interim Processing Centre, the permanent (but eventual) processing centre in Summerside, and federal-provincial harmonization efforts.

In setting up the Project Team, Excise tried to get as much of what it needed directly under its own control. This included housing all units together in the same building. Before the project, Excise Headquarters staff were spread around four buildings in Ottawa, and the Branch systems unit was in Hull. In late 1989 and early 1990, Project Team staff moved under one new Headquarters roof in Vanier.

Certain features of the structure should be noted. For the duration of the project, the Regional Directors reported to the Director General for Field Operations, Mr. Tittley. Since the RDs normally report directly to the ADM (and do so again, now that the project phase is over), this freed up more of Mr. Fulford's time and energies to devote to the overall running of the project.

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8 Mr. Fulford characterizes this "joint ADM-ship" as follows: he (Mr. Fulford) dealt with external groups (particularly central agencies and other departments) in order to "keep the road clear"; Mr. Burpee's job was to make sure that "all the Excise wagons were going down the road in the same direction".

The Excise GST Transition Team

Initial Team:

• Assistant Deputy Minister	Richard Fulford
• Project Director	Mike Burpee
• Director General, Program Development	Brian Kimmons
• Director General, Policy and Legislation	Stuart Watson
• Director General, Field Operations	Robert Tittley
• Director General, Systems	George Kirkpatrick
• Director General, Appeals	Brian Burke
• Director, GST Secretariat	Elizabeth Shaver
• Director, Consultations	Brian Shackleton
• Director, Transition (i.e. FST rebates)	Dick Courneyea
• Director, Personnel Operations	Thérèse Gervais
• Director, Planning and Support	Bob Thompson
• Director, Communications	Jean Sattar

Later Additions:

• Director General, Federal-Provincial Relations	James Lynn
• Director General, Summerside Processing Centre	Ray Doucet
• Director, Interim Processing Centre	Jean-Pierre Lortie

The "GST Secretariat" was a central planning and coordination group. It maintained the Master Plan, monitored progress, and serviced various senior departmental and

interdepartmental committees. The group also prepared Treasury Board submissions, and ensured that GST planning was integrated into the broader planning processes of the Department as a whole.

But the Secretariat was more than this. It was essentially the nerve centre for the project. It was the Project Director's staff group; it was the immediate servant of the Deputy, the ADM and the Minister's office; it was the focal point for crisis management (and there were many crises that had to be managed!).

And the Secretariat provided the crucial window to "the centre". It was the designated contact point for officials from Finance, Treasury Board,[9] Privy Council Office, and so on. In this context, it was explicitly charged with making sure that those agencies "had no surprises" – that they knew how the project was going, and that they knew, **in advance**, of impending problems and urgencies.

Another important factor was the inclusion of Personnel Operations as an integral part on the Project Team. This contributed immensely to speedy staffing of the Team itself, and perhaps more fundamentally, to the team's work in establishing the permanent Excise/GST organization.[10] The Personnel unit was detached from the corporate Personnel Administration Branch, and moved into the same building as the rest of the GST team. In a particularly valuable example of

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9 An extremely valuable aspect of central agency relations was the fact that the Treasury Board analyst responsible for the GST physically moved over to the Secretariat's offices for several months. Excise decided that the "books would be open" to the analyst. This was of immeasurable assistance to Excise in preparing its case for Treasury Board, and in ensuring that the Board had an in-depth understanding of what the project was all about. The analyst's presence was probably also a useful restraint on overly imaginative Excise resource requests.

10 As well, having a dedicated Personnel unit proved to be quite valuable in dealing with the initially unforeseen requirement to transfer Excise staff to the Ministère du Revenu du Québec, which will administer the GST in Quebec beginning in mid-1992.

inter-Branch cooperation, the group was given full autonomy to handle all aspects of GST personnel operations, both at Headquarters and in the Regions.

Staffing the Project Team posed certain problems, although procedurally it was relatively easy. A small core group came from the FST. These were mainly technical personnel in policy and program development areas, as well as support staff. While the old tax was still being collected up until the time the GST came in, some FST activities could be gradually wound down and the staff made available (seconded against their existing position descriptions) for GST development.

This situation posed potential morale problems on two counts. In the first place, the plan to close down the FST inevitably caused some staff to fear that their jobs would be lost. Secondly, the new permanent jobs would be in the GST, and FST staff who were left behind to close up shop might reasonably feel at a career disadvantage to colleagues who left early to join the Project Team, or to new GST recruits from outside the Department.

Senior management recognized these concerns. At the very beginning, on April 27, 1989, the Deputy Minister wrote to all Excise staff promising that jobs were safe. Excise staff who continued to work on the FST would not lose out through not having the chance to develop GST knowledge and experience. The full proof of this promise will come with final staffing of the permanent GST organization, which (at least in Headquarters) is still under way as this is being written. However, senior management have consistently and firmly reiterated the Deputy's commitment.

This commitment has been extended to the special circumstances surrounding harmonization of the Quebec sales tax with the GST. As a result of harmonization,

Excise's Quebec-based Regions will be devolved to the Province. A fundamental requirement for Excise management was to make sure that all affected staff would be offered comparable jobs by Quebec.

Many Project Team staff were also recruited (via secondments and special assignment mechanisms) from other Customs and Excise branches and from other departments. In this regard, senior Excise managers particularly acknowledge the support that they received from Customs and, especially, from Taxation.

Given the reductions that were occurring elsewhere in the public service, the pool of potential recruits to the GST was probably larger than would normally have been the case. This advantage was lessened somewhat by the fact that Excise would not, and **could not,** make commitments of permanent GST employment.

In the first place, as we noted above, the Branch had a commitment to protect its own people, including those who would be coming over from the FST at the very last minute. Secondly, the Speaker's ruling meant that the Branch could do nothing that publicly implied anything other than **preparation** for the new tax. A commitment of permanent GST jobs to outsiders would violate that restriction.

Organization in the Regions

The Project Team was a Headquarters institution. However, getting set up for the day-to-day running of the tax was the Regions' job. This challenge was outlined in the Red Book, and as we have already noted, the Regional Directors had quite a free hand in how they went about meeting it.

In fact, there was quite a variation in approach among the nine Regions. Some Regions more or less mirrored the Headquarters approach, and set up their own fairly formal "Regional

implementation teams". Other Regions had looser arrangements, with their functional managers adding the GST responsibilities to their existing FST duties. And, as might be expected, these variations in organizational strategy were accompanied by many Region-to-Region differences in organizational tactics (e.g. role of committees; methods for communicating with staff, etc.).

One difference between the Regions and Headquarters was that the Regional Directors were still responsible for the FST. There was no separation of the GST and FST at the most senior levels in the field in the way that there was in Headquarters.

At least some of the RDs think that this was better than the Headquarters approach. They feel that it allowed for a more flexible use of staff to carry out all FST and GST tasks. This, in turn, provided a more practical basis for moving personnel to the GST on a permanent basis.

This FST/GST delineation also raises the question of Headquarters-Regions communications during the project. Having a separate FST-ADM in Headquarters meant that the "old tax" was in no danger of being relegated to secondary status. On the other hand, some Regional Directors have mildly grumbled that the "two-headed" Headquarters approach sometimes led to a lack of clarity, and was not really an optimal way to priorize the massive amount of work that had to get done. Ultimately, though, this was not a fatal weakness.

Internal Customs and Excise coordination

While Excise has primary responsibility for implementing the tax, other Customs and Excise units were intimately involved. In fact, Customs actually has its own **operational** GST role, since Customs officials,collect the tax on imports at the border (the Customs GST project is summarized later in this chapter). As well, Excise preparations relied crucially and extensively on corporate units responsible for systems development.

accommodations, administrative and financial management support, and legal services. More detail on some of these involvements will be given in the next chapter.

The orchestration of inter-Branch commitments thus became an important factor in the overall management of the GST project. On a day-to-day basis, this simply involved the establishment of close working relationships between Excise managers (especially the Project Director) and staff with their counterparts in other parts of the Department. However, these relationships, and the designation of the GST as a priority for the dedication of resources, required the active cooperation of senior managers throughout the Department. This involved a certain amount of conflict, and took a lot of work.

The usual mechanism for bringing about this sort of commitment and coordination is a committee. In this case, the Deputy Minister's "Kitchen Cabinet" was the vehicle. This group, which included most of the Department's Branch Heads and the Deputy's senior advisor, met weekly to discuss GST implementation, ensure integration of project activities, resolve any inter-Branch "concerns", and bounce ideas around on interdepartmental issues.

And of course, the stocktaking sessions referred to in the previous section were also very important in making sure that everyone pulled together.

Organization: re-capitulation and principles

The project approach was critical to Excise being able to get the GST off the ground. The short time frame, together with the scale and complexity of the task, required an intense concentration of resources and a flexibility of response that would likely not have been otherwise possible.

The GST and Customs

Introduction: Within Customs and Excise, the Excise Branch had the primary responsibility for launching and administering the GST. However, the new tax has significant implications for the Department's two Customs Branches (Operations and Programs).

Under the FST, Customs collected tax on imports of manufactured goods by businesses and the travelling public. The Customs role is essentially the same under the GST, except that the new tax applies to a vastly wider array of goods, and also to services.

Planning and Organization: The GST did not represent a major change in the way that Customs does business, nor did it involve fundamental changes in principles and organization the way that it did for Excise. What the GST *did* mean for Customs was a workload increase (requiring 104 new person-years), and a lot of adjustments in policies and procedures.

In fact, in terms of scale, the GST launch was on par with other recent Customs projects (e.g., implementation of the Free Trade Agreement; implementation of the new international "Harmonized System" for classification of goods). Customs had also been through a major systems development program, the 1988 establishment of the Customs Commercial System (CCS), which automated many data collection and analysis activities.

Customs was part of GST planning from the beginning. Several Customs officials were members of the Excise-led Commodity Tax Review Group that produced the Blue Book, the basic GST planning document. From there, an internal Customs GST Implementation Task Force, operating out of Headquarters in Ottawa, developed a detailed action plan. This was finalized in late 1989. This work was supervised by a Steering Committee chaired by the Assistant Deputy Minister of Customs Operations. The Excise GST Project Director took part in this committee, thereby providing a crucial linkage with Excise preparations.

Operationally, Customs managed GST implementation much like it did the other major projects mentioned above. The Headquarters Task Force developed the implementation plan and worked out policies and procedures. Implementation fell to the Regions. Each Region appointed a GST "coordinator" to be responsible for implementing GST-related changes, and for training and public information programs.

One important difference from other recent Customs projects was that Customs was not "driving" the GST. The Department of Finance was the lead agency. Customs (like Excise) depended on the substance and timing of Finance policy decisions. Again like Excise, Customs was also at the mercy of the long, drawn-out legislative process, and had to do the same sort of last-minute scrambling to get everything in place by January 1.

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The GST and Customs (cont'd)

Implementation: For the most part, the GST meant that Customs had to modify policies, systems, and procedures that were already in place. The main tasks were:

- resolving, with Finance and Excise, a number of GST policy issues affecting Customs operations;
- developing changes to the *Customs Act*, Customs Tariff, and attendant Regulations, that were necessary as a consequence of the GST legislation;
- carrying out software changes and some hardware expansion to CCS;
- changing manuals, booklets, forms and other internal and public documents (e.g. 29 forms and 124 internal directives had to be revised);
- developing and disseminating material (including about 100 in-depth seminars) to inform Customs' clientele (e.g. major importers, customs brokers, the travelling public) about relevant aspects of the GST;
- designing and delivering a GST training program for about 6500 Customs personnel, to allow them to collect GST from the travelling public and commercial clientele.

However, a key factor was the ability and obvious willingness of senior Excise managers to delegate. In the words of the Excise/GST vernacular, this meant conferring "ownership"; the Public Service 2000 terminology is "empowerment".

We have already seen this principle in the freedom allowed the Regional Directors within the Red Book framework, in the "split personality" between the ADM and the Project Director, and in the delegation of the RDs' reporting relationship from the ADM to the Director General of Field Operations.

But the principle extends much further. "Ownership" was a very intentional and **explicitly stated** philosophy underlying the Project Team's organization and operation. From the beginning of the project, the managers of the various project streams were clearly and distinctly told (by the ADM and the Project Director) that they indeed "owned" those project streams. It was their responsibility to make sure that everything that had to get done got done, even if units that they did not control were responsible for some of the contributing activities. As a result, Directors, Managers and Chiefs were given – and were expected to exercise – degrees of decision-making authority that their peers elsewhere in the public service rarely have.[11]

The same was true in the Regions. As we noted earlier, the Regional Directors had a lot of independence in their efforts to deliver operational facilities, staff and programs by the launch date. In turn, the RDs (while they may have organized their teams differently from Region to Region) generally gave the same sort of freedom to act – and responsibility to deliver – to their own Managers and Chiefs.

But all was not completely rosy.

Ownership was not always unequivocal (as we shall see in more detail later). This led to a certain amount of turf conflict, decision-making confusion, and a tendency for progress to bog down. As troublesome as these situations were, though, they did not prove too damaging for the project. This was partly because of the urgency of the project itself, and partly because the Project Director, Kitchen Cabinet and stocktaking sessions combined to push things along.

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11 One GST Director observed that exercising this decision-making freedom, while designing a completely new tax affecting everyone in the country, was a chance to bring about **real** change in a way that few public servants ever have.

There are also some suggestions that, at the Directors' level, ownership was exercised so strongly that it produced too much compartmentalization.[12] This view has it that the Directors (who were really the key managers in terms of program development and delivery) were too focussed on the streams that they "owned", and did not take sufficient ownership of **the tax as a whole**. This led to problems along the way (particularly in systems development) because of unintended effects of one stream on another, or an unclear understanding of what another stream might require. It has been suggested that this lack of "cross-functional linkage" might have been avoided had there been regular meetings of Headquarters Directors (as there were among Directors General and among Regional Directors).

Finally, there is a bit of a sense that "we were actually quite lucky with the Regions". The RDs not only had quite a free hand, but Headquarters was so pre-occupied with the unrelenting demands on the Ottawa scene that its overview of the Regions' preparations was not always comprehensive. In short, the Regions probably had as independent a role in setting up the tax as could be imagined. In retrospect, this looks rather scary, given that a national program was being frantically designed under very fluid Ottawa conditions for implementation by nine quite different and far-flung Regions.

Moreover, there was apparently even some occasional Regional concern that Headquarters was not passing on everything it knew about the overall state of policy development. The Ottawa response is that the Regions thought that Headquarters knew more than it really did!

12 One GST manager suggested that, at times, application of the ownership principle came uncomfortably close to a situation where several people are asked to wallpaper a room, with each responsible for one roll of wallpaper, and **only** one roll.

In any event, the Regions did have a central Headquarters focal point in the Field Operations Directorate. As well, the regular Excise RDs meetings (where the RDs gathered together with senior Headquarters executives) were eventually stepped up from three times a year to once a month. Eventually, too, as the launch date approached, "Regional desks" were set up in Headquarters to expedite the handling of Regions' requests, questions and concerns. And towards the end, twice-a-week conference calls linked each individual RD with all the Headquarters units implicated in the specific concerns of the day.

Nevertheless, there is a residual sense at the most senior Headquarters levels that the Regions were perhaps not as closely integrated with the Project Team as they might have been. But this is where the "Excise family" helped. Any risk that there might have been too much Regional variation in launch preparations was really reduced by the closeness of the old communications networks among the RDs, and among functional managers and staff across the entire Branch.

External Relationships

The Deputy's special advisor

The starting point for discussing Customs and Excise's relationships with the outside world has to be what the Deputy Minister describes as one of her best and most crucial GST decisions. This occurred in the late summer of 1989, when she retained the services (under contract) of Mr. Sal Badali.

Mr. Badali is a tax accountant with a major accounting firm. He has an in-depth knowledge of value-added taxation, and has widespread contacts in the professional tax accounting community. He had also been Chief of Staff to a former Revenue Canada Minister, and thus knows his way around Ottawa's high-level political and policy processes.

Mr. Badali reported directly to the Deputy. In her words, his role was to be "the conscience of the team from the vendors' perspective". As such, he was to provide the link between the Department and the private sector. This included giving feedback to the Deputy on what appeared to be going over well in the business community, and on emerging problems and concerns.

To a degree, this compensated for one of Excise's GST weaknesses. As we noted earlier, the Branch's FST experience had been with a limited clientele. Excise had had little contact with the small businesses that would form the bulk of GST registrants, and none at all with charities, non-profit organizations, and several other groups of GST "clients".

Beyond his "external conscience" role, Mr. Badali helped in overcoming Excise's lack of experience in the political/central agency milieu. In this context, the Deputy Minister attaches considerable credit to his understanding of the Ottawa scene, and his ability to build effective bridges between officials and Ministerial staff.

Industry consultations

Mr. Badali was also a key participant in the Branch's GST consultations process.

This program was designed and coordinated by the Project Team's Consultations Directorate. It sought to establish a presence and a credibility for the Branch with the business community, most of whom had never had anything to do with Excise.

The consultations program was focussed on industry associations. Excise requested meetings with about thirty-five of the largest associations; these groups were visited in their home offices by Mr. Badali and the Director of Consultations. More than two hundred smaller associations were also contacted, and were told that the Branch was ready, willing and available to discuss GST content and preparations. Meetings were also held with many of these groups.

These consultations were a two-way street. On the one hand, they helped to give the business community a basic GST education. This went hand-in-glove with the Branch's other education activities (described in the next chapter) that sought to avoid the launch being crippled through vendor GST ignorance.

The consultations process also gave the business community a chance to raise any concerns it had about Excise's administrative preparations, at a time when those preparations were not cast in stone.

But there was real value for Excise too. The meetings helped to give the Branch some insight into the workings of business sectors that it did not know. They were also a useful vehicle whereby Excise could encourage businesses to register early and to take advantage of initiatives like the Advisory Program (which is described later). And one of the program's most helpful aspects was that it gave Excise valuable feedback on the design of its implementation strategy, policies and procedures.

This outside advice led to many improvements in Excise products, practices and procedures. For instance, association views helped in the design of the tax return form, and in its being kept to a one-page document. Consultations helped Excise in developing the "Quick Method" of simplified accounting for small businesses (an

unusual GST policy measure in that its impetus came from Excise, rather than Finance). Business and consumer associations assisted in shaping the Branch's retail signs program, a special service which helped vendors to explain their GST pricing practices to customers. And, finally, associations made a particularly valuable and constructive contribution by reviewing early drafts of many of the Branch's GST publications.

Communications

Not surprisingly, a vital GST external relations concern was communications. The Minister, Mr. Jelinek, was the government's spokesman on GST administrative preparations and played a major public role in encouraging businesses to get ready for the tax. But the public environment in which the Minister, the Department and the Branch were making the launch preparations was a hostile one. Canadians did not like the GST. Many, maybe most, of Excise's prospective GST clients in the business community were just as unfriendly toward the idea of the tax. And all of this was in a broader context of low public confidence and antipathy toward the government, and in an economy which was headed into recession.

In other words, the communications environment was intense, difficult and complex.

And Customs and Excise was not the only show in town. GST communications was an extremely sensitive concern within the highest political offices and in the key central agencies. Given the prevailing public/political environment, the greatest of importance was attached to the intent, message and contents of any department's GST utterances. Accordingly, all GST communications activities were subject to very careful scrutiny and coordination from "the centre", notably by an interdepartmental communications committee of senior bureaucratic and political staff.

In this broader communications context, an early strategic delineation of Customs and Excise's role proved to be most valuable. In essence, there was a spectrum of GST communications responsibilities across the government. The Department of Finance was to focus on the need for the tax, on policy issues associated with it, and on the legislative process. Consumer-related issues (e.g. impact on prices) were to be the communications concerns of Consumer and Corporate Affairs, and more actively, of the Consumer Information Office after it was established in the fall of 1990. As for Customs and Excise, its target audience was to be the business community, and its concerns were to be the **administration** of the tax.

This was a crucial decision. It allowed the Department to concentrate on its own audiences. It helped to avoid diverting the time and attentions of the Minister, Deputy, and other senior officials away from the "clean launch" objective.

Throughout the whole project, then, Customs and Excise, very deliberately and very firmly, focussed on GST administration as its one and only communications sphere. The Department's internal work and its external messages were in harmony.

The Department's broad communications goals were outlined in the Blue Book. By late 1989, it had developed a clear statement of the broad strategic considerations, communications objectives, and general messages that were to be aimed at various target audiences.

In fact, there really was only one communications objective: to prepare for the smooth launch. This meant two things:

- reassuring the business community that Customs and Excise was ready to administer the tax – fairly, competently, and as helpfully as possible;

- providing potential GST registrants with the information that they needed to prepare themselves to implement the tax.

To these ends, the Department conducted three major advertising campaigns (television, radio and print), at a cost of $10 million.

The first campaign, in mid-1990, meshed with Excise's initial mail-out of registration forms, and encouraged businesses to register early for the GST.

The second came in the fall of 1990, when many vendors seemed to be listening to predictions that the tax would be defeated or postponed, and were simply not getting ready. The campaign, with the Minister playing a very visible and active role, stressed the inevitability of the GST, and the real need for businesses to "prepare now". A prominent part of the campaign was a widely distributed "how-to-get-ready" tabloid, *GST Basics for Businesses.*

A third wave of advertising came immediately on the heels of Royal Assent, and pointed out that the GST was now law.[13]

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13 Even then, at the very end, nothing was simple. A certain amount of lead-time is needed to line up advertising on 300 or so radio stations across the country. As a result, last-minute delays in the Senate's passage of the legislation required a frantic weekend of activity by the advertising agency to make sure that the scheduled Monday (December 18) ads, saying that "The GST is now law", did **not** make it to the airwaves.

As a further contribution to vendor education, the GST communications group focus-tested draft GST publications with target audiences to make sure that the information was clear and easy to understand. The group also handled the actual printing and distribution arrangements for many of the publications.

Organizationally, communications responsibilities straddled the boundaries between Excise and the corporate side of the Department. From the very beginning, a communications unit was an integral part of the Excise Project Team. However, this unit did not join the rest of the Team in its new building, and it remained closely linked to the corporate Communications Directorate. Indeed, as the project proceeded, the Department's Director General of Communications eventually assumed direct responsibility over the unit.

This worked well. As we noted earlier, Excise did not have a history of involvement in controversial public issues, and with the intense levels of Ministerial involvement and media scrutiny that usually resulted. The senior management talents and instincts for dealing with these concerns resided at the Departmental level, and there was little difficulty in defining the appropriate inter-Branch working relationships.

Interdepartmental relationships

The GST launch required the commitment and cooperation of a number of departments. In fact, the very definition of federal taxation in Canada is an interdepartmental exercise, since we are among very few countries in the world where formulation and administration of tax policy are carried out by two different departments.

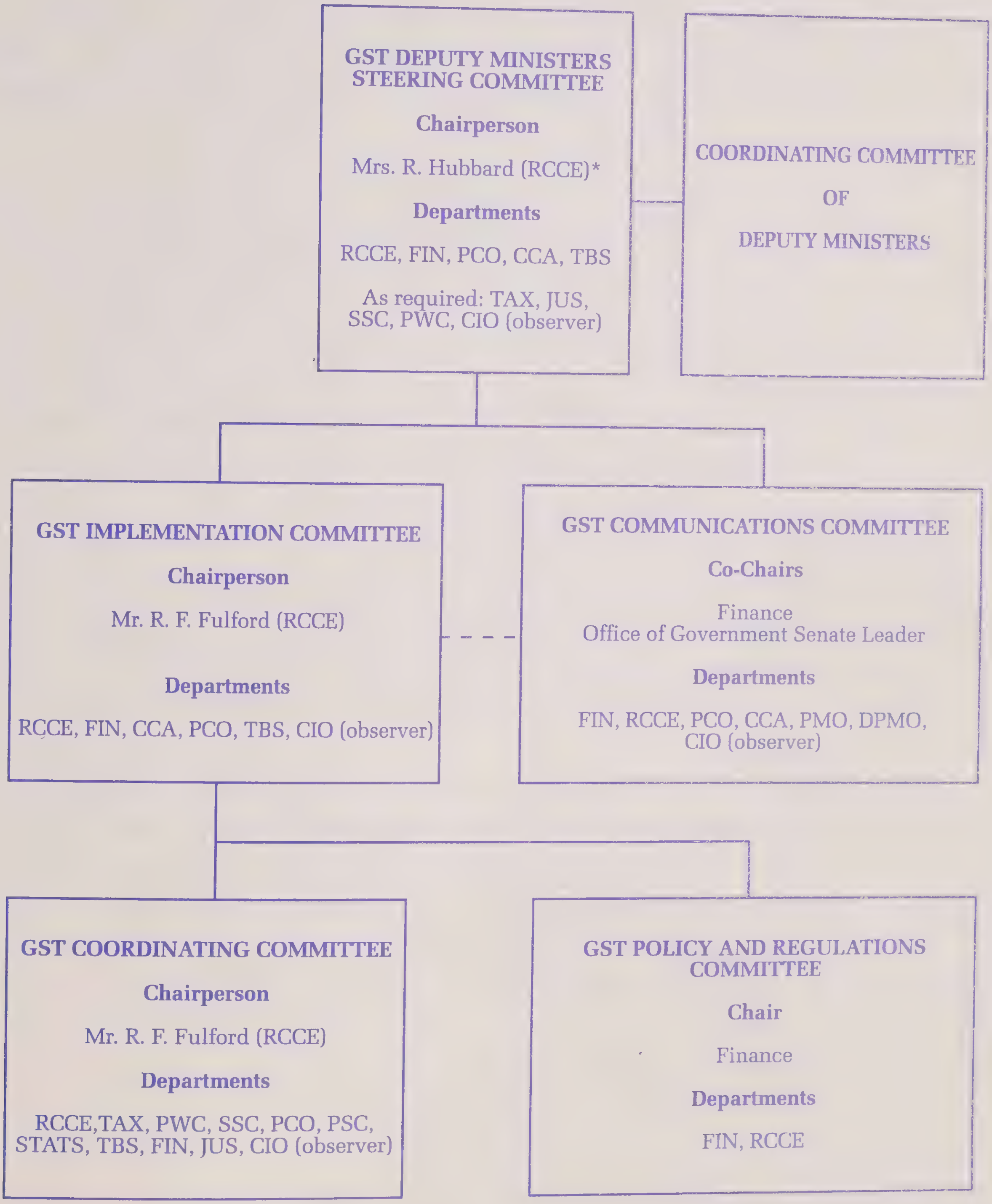
Certainly, there was a close, continuing and, at times, tumultuous GST relationship between Excise and the Department of Finance. Finance officials' policy proposals to Ministers (or delays in developing these proposals) had tremendous ramifications for Excise's administrative preparations. And it would be less than frank to suggest that there were not occasions when Excise felt that Finance cared little for administrative realities (the Finance side of the story is not an issue here!).

In any event, high-level coordination between the two departments preceded the implementation project. As noted earlier, an interdepartmental committee of Deputy Ministers, chaired by Finance, had supervised the movement towards the MSST. This committee, with members from Finance, Customs and Excise, and Taxation, had commissioned preparation of the Blue Book.

Once the "federal-only" GST option was chosen, Finance established the GST Deputy Ministers Steering Committee. Membership consisted of Finance, Customs and Excise, Privy Council Office, Treasury Board Secretariat, and, eventually, Consumer and Corporate Affairs. The Deputies' committee was mirrored by another committee at the ADM level, known as the Project Management Task Force. This too was originally chaired by Finance.

However, after third reading of the GST legislation, in April, 1990, it was agreed that the broad focus had shifted from policy development to administrative preparation. The two committees were therefore transferred to Customs and Excise leadership. The name of the ADMs' group was changed to the Implementation Committee; as shown in the diagram which follows, its work was carried out through two sub-committees.

THE CLEAN LAUNCH: INTERDEPARTMENTAL GST MANAGEMENT SPRING 1990 TO JANUARY 1991



* RCCE – Revenue Canada, Customs and Excise

When the committees were transferred to Customs and Excise,[14] their membership was broadened to include Treasury Board, Justice, Taxation, Public Works, the Public Service Commission, and Supply and Services. Excise had sought these changes because of the crucial role that these agencies would have to play in the Branch's launch preparations (several of these involvements will be seen in the next chapter).

The committees were important to Excise. They provided a forum for discussing a range of problems that arose during the project – and for getting commitments from other agencies to help solve these problems. Perhaps just as importantly, the committees served to keep the "centre" informed about Excise progress, and to alert the centre to the impact of larger developments on the prospects for the clean launch.

Advisory committees

The Department also benefitted from establishing two committees of outside advisors, one reporting to the Minister, and the other to the Deputy. Both committees began operation in the spring of 1990; both were co-chaired by Mr. Badali.

The Deputy's committee were mostly tax professionals from the accounting, legal and business communities. The Minister's committee was somewhat broader in scope, and included representatives from the small business community, the medical profession, and consumer groups.

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14 For a time during 1989, the Excise ADM had chaired the "GST Coordinating Committee". Its membership included several agencies (e.g. Public Works, Supply and Services, the Public Service Commission) whose cooperation was essential if Excise was going to put the tax into operation. This committee disappeared as a separate entity in early 1990, when its functions were folded into the Implementation Committee.

Committee meetings were held every two months or so. They generally involved either the ADM or the Project Director giving a thorough progress report on how the GST preparations were going, followed by more detailed presentations on specific program elements (often in response to requests from committee members).

The committees were not just ceremonial. They were useful sounding boards for Excise on program development and on the content of various publications. The Deputy's committee tended to focus on somewhat more technical issues.

The committees also seem to have helped create a favourable impression of Excise's GST efforts in the professional tax community. Many committee members were prominent in that community, and some were regular commentators in the business press. Excise officials were always very frank in discussing problems and difficulties with the committees, and members appeared to genuinely appreciate both this openness and the intensity of the Branch's tax preparations.

External relations: recapitulation and principles

Two main points emerge from the way in which Customs and Excise approached its external GST relations.

The first harkens back to the "ownership" principle. The Department was truly dependent on several other departments, if it was going to bring off the smooth launch. However, it is one thing to request the cooperation of other agencies; it is another to obtain their urgent participation as full and active partners.

Accordingly, the Department, very consciously and deliberately, tried to use the committees to develop a deeper commitment by the other agencies involved. Senior Departmental managers believe that they were successful in

doing this, and that the "public" discussion of tasks and responsibilities around the committee tables beneficially increased the sense of ownership by the participants.[15]

The second external-relationship theme is the value of honest and open relations with clients. The processes mentioned above (together with the vendor education activities described later) seem to have built up a certain amount of good will for the Department within the business community. This was no negligible feat, given the controversy surrounding the tax.

Moreover, Excise programs and products really were improved by the constructive suggestions that came from the consultations processes. This was to everyone's benefit: if clients find programs and materials more "user-friendly", then the Branch's role of encouraging compliance is that much easier.

However, Excise cannot live on its laurels. A year and a half of active consultations are clearly not enough to give the Branch the easy familiarity with most GST registrants that it used to have with its FST clients. In fact, there is a continuing post-launch concern as to how the Branch can better educate itself about the problems and attitudes of its new clientele.

15 The Deputy Minister has a more colourful description. When a project is difficult, controversial and has a real potential to fail, it helps to "have as many hands as possible in the bucket of blood".

Recapitulation: How Customs and Excise Approached the Launch

In summarizing how the Department managed the GST project, a few threads emerge.

At the core of the project was Excise's technical expertise in commodity taxation, and its ability to mobilize and project that expertise onto a much bigger canvas than it was historically used to. The Branch planned this "scale-up" carefully, in detail, and with confidence. In the process, it convinced others that it knew what it was doing.

But, of course, there was a lot more to managing the launch than managing a switch in taxes (even if that switch did involve some fundamental changes). The scale of the project, the explosiveness of Excise's own growth, and the short time frame involved, demanded a high degree of project-management rigour, and the marshalling of resources that went far beyond the Branch and even the Department. The Project Team and its planning and monitoring mechanisms were crucial here, but they weren't enough. The Deputy Minister's internal management councils were vital in ensuring the necessary inter-Branch commitment and in keeping turf battles incipient instead of debilitating.

There is also no question, at least from the Customs and Excise perspective, that the interdepartmental universe unfolded about as well as it could have, given the political and public sensitivities surrounding the tax. The Department was purposeful and fairly successful (at least in its own eyes) in using the various interdepartmental committees to generate commitment and support from other agencies, and also to provide comfort to those agencies that the ball was not being fumbled. The glare of these "public" spotlights was also, no doubt, a useful goad to internal Customs and Excise co-operation.

The GST also emphasized a new management theme and priority for Excise. Much more so than in the past, the Branch has to make an effort to get to know its many, many new clients. The launch preparations recognized this, but the Branch will need to continue this momentum.

And, finally, there was the quality of the management itself. Senior managers, particularly the Deputy Minister, the Excise ADM and the GST Project Director, seemed to have the right blend of skills. There was an effective division of labour at these senior levels that played to the strengths of the individuals, and compensated for their weaknesses. Ownership was passed downwards and respected. And it worked.

Chapter Five: How the Tax was Launched

Introduction

The last chapter described how Excise, and the Department as a whole, **managed** the GST start-up. This chapter looks at the "real work" behind the launch.

Planning and organization are not the "stuff" of the tax: they do not actually describe how reluctant vendors were registered; how the Regions recruited and trained the necessary staff; or how accommodations were acquired and furnished for new offices across the country.

This document can barely touch on the 2000 such activities that were in the Master Plan. However, the following pages do provide a few highlights of some of the major program streams.

Probably the most useful way to look at these activities is to look at the goal, the clean launch. The objectives of the clean launch were listed on the very first page of this document, and are repeated in the table on this page.

The GST: Characteristics of a Clean Launch

- Policy and regulations completed.
- Majority of potential vendors registered and educated about the GST.
- Staff, systems and accommodations in place to implement the tax.

These three objectives are what the project was all about: the extent to which they were met is the extent to which the launch was indeed "clean".

Headquarters and Regions: Their Roles in the Clean Launch

First, though, we should take a quick look at the relative responsibilities of Headquarters and the Regions.

Operationally, most of the GST happens in "the field". Staff in the Regions are responsible for registering taxpayers, handling their enquiries, auditing the accuracy of their GST tax returns, and trying to retrieve any GST monies that they still owe.

In contrast, the Headquarters role is planning, monitoring and quality control. During the buildup to the launch and the immediate post-launch months, this planning function was obviously much more intense than it will be when the GST is fully operational. During this period, the GST was being designed from scratch, which meant that the Headquarters Project Team was urgently and intensively developing the policies and procedures that the field will follow in the registration, collection and other "tax machinery" programs. Headquarters also had to make sure that the expansion plans for the Regions (as set out in the Red Book) were proceeding on time and as intended.

The result was a very complex and multi-faceted set of relationships between Headquarters and the Regions. Each Regional Director had full administrative control over his or her staff, and (as per the Red Book) had to make sure that the staff, buildings, equipment and so on were in place. Within this context, Regional and Headquarters staff interacted with each other on a functional basis. Thus, for instance, Headquarters registration officers worked with Regional

registration staff on the directions, content and administrative requirements of the registration program. The same sorts of relationships occurred in the other tax program areas, as well as in "infrastructure" activities like staffing, training and accommodations.

As might be expected, each functional area had its own set of problems, organizational complications, and managerial and personal chemistries. Some of this complexity should become a little clearer as this chapter unfolds.

Before moving on, though, it might be useful to summarize by mentioning what a visitor to Excise would have seen during the buildup to the GST launch.

In Headquarters, the visitor would have been surrounded by people working frantically against the clock to: sort out what the administrative components of the tax were supposed to do and how they were to do it; set up the computer system and the tax return processing centre; produce a host of publications; and design the new permanent Excise/GST organization. In the field, our external observer would have seen lots of activity related to property acquisition, facilities fit-up and furnishing, and personnel recruitment and training. As January 1 grew closer, vendors began entering the Regions' picture (appearing in the offices and at the end of telephone lines), and field staff started to do what they really were set in place to do, implement the GST.

Clean Launch Objective: Completion of Policy and Regulations

Obviously, the first launch requirement was to decide on what is taxable and when.

The importance of having GST policy and regulations in place has already been mentioned several times. Clearly, Excise could not collect the tax until its legal basis was established by Parliament. Just as clearly, the Branch's systems, practices and procedures could not be fully and finally established unless the hundreds of policy details[1] that constitute the tax were worked out and enshrined in either the main body of the law or in the attendant regulations.

Excise did not control its own destiny here. As we have noted, the Branch was at the tail-end of the legislative process. It depended on the tortured progress of the legislation through Parliament. In more detailed terms, it relied on the Minister of Finance to finalize policy provisions and particulars. To repeat the most lamented (by Excise) fact about the GST, the legislation did not receive Royal Assent until two weeks before the launch date. The regulations were promulgated immediately afterwards.

This does not mean that Excise played no part in the policy-and-regulations process. Throughout the entire legislative history of the GST, Excise staff (primarily the Project Team's Policy and Legislation group) worked very closely with Finance in order to stay abreast of the latest policy developments and to assess their administrative implications. As well, Excise staff continually "pursued" Finance to resolve stubborn issues, so that the Branch could make the appropriate preparations.

1 Bill C-62 established the GST. The Bill took no fewer than 278 bilingual pages (i.e. half the page in English and the other half in French), plus an additional 32 pages of "Schedules", to describe the necessary amendments to the *Excise Tax Act*. The Bill also contained an additional 31 pages of consequential amendments to the *Criminal Code*, the *Customs Act*, the *Customs Tariff*, the *Excise Act*, the *Income Tax Act*, the *Statistics Act* and the *Tax Court of Canada Act*.

Also, Excise played a direct role in formulating many of the regulations. In fact, since many of these were primarily administrative in nature, Excise had lead responsibility for providing detailed drafting instructions to Privy Council Office legislative staff (who actually wrote the regulations).

But Excise needed help here. The Department's Legal Services Division (part of the Executive Office, and headed by a Senior Counsel on assignment from the Department of Justice) worked closely with Excise staff in assessing the administrative implications of the legislation, and provided detailed advice on developing regulation content. Legal Services also acted as bridge to legal staff in Finance, PCO and Justice,[2] who were the actual authors of the legislation. This was particularly important in helping Excise make its case when it had administrative concerns arising out of particular policy proposals.

Ultimately, at the eleventh hour, the legislation and regulations were put in place.[3] However, as we shall see shortly, delays here had a ripple effect on other Excise preparations, and helped make the launch somewhat "less clean".

2 The Deputy Minister of Justice had his own GST steering committee, composed of Justice ADMs, as well as lawyers from Justice who were working on GST in Finance, Taxation, and Customs and Excise. This committee monitored how legislative aspects of the GST were proceeding. The committee helped Excise to better focus some of its activities, and was a vehicle to muster Justice support for Excise when this was needed. Justice also took part in the Excise-chaired committees mentioned earlier in this document.

3 Except for the "Crown Agents Regulations", which were promulgated on February 14, 1991.

Clean Launch Objective: Vendor Registration and Education

From the stroke of midnight on January 1, businesses all across the country were required to start collecting GST on their sales. For this to happen in an orderly way (i.e. orderly for everyone: businesses, consumers **and** Excise), it was crucial that as many businesses as possible be registered with Excise, that they know how to collect the tax fairly and remit it correctly, and that they have the necessary systems in place to do so.

Registration[4]

Vendor registration was one of the most important – and most daunting – tasks in getting the GST up and running. Excise had to identify and contact every business in the country, and every other organization (e.g. universities, charities, municipalities, etc.) that might make taxable sales (e.g. through bookstores or canteens). Basic information (address, annual sales, fiscal year-end, etc.) had to be assembled on each of these vendors, and entered into the GST computer system. Each vendor had to be assigned a unique identifying number,[5] have the registration confirmed in writing, be informed of the assigned remitting frequency, and be given his or her choice of elections.

The tax was totally new. Both Excise **and** the business community were starting from scratch. This, combined with the sheer logistics of signing everyone up, meant that Excise really needed a fairly substantial lead-time. The Blue Book

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4 For the sake of clarity, the term "registration" is used throughout this discussion. However, the official Excise terminology throughout most of 1990 was "pre-registration". This reflected the intent of the Speaker's ruling. A vendor could not **really** be registered for the GST until after the legislation establishing the tax received Royal Assent.

5 The "unique identifying number" was an interesting GST issue. Early in registration planning, there were interdepartmental discussions as to whether a common client identifier might be used for all Customs, Taxation and Excise functions. While this approach may well have been desirable, the time and difficulties involved in trying to work it out would have taken the registration program far, far beyond its "drop-dead date". Excise really had no choice but to use a unique GST registration number.

assumed that registration would commence "shortly after the legislation receives Royal Assent, 12 months prior to implementation"!

Registration lead-time had serious implications for systems development. Most operational GST elements really did not come into play until after January 1. However, the system could not wait until then. Registration had to take place much earlier, which meant that the mainframe, terminals for registration staff, and all of the registration-related software had to be operational in April of 1990.

Conceptually, the registration process looks quite straightforward. Excise Headquarters mailed registration forms to about 1.9 million addresses.[6] Respondents returned their completed forms to their respective Regional offices. The Regions entered the data into the system. The system assigned a registration number to each vendor, and generated an acknowledgement notice. This, together with a package of publications (called the "registration acknowledgement kit") was then mailed to the vendor. Twice in the months following the first mail-out, Headquarters sent reminder notices to those vendors who had not yet responded, encouraging them to register and to prepare their businesses to implement the tax.

The apparent simplicity of the process masks the size of the task. Sheer logistics was one issue. But there were a number of other problems. For example:

- Excise did not have the planned one-year lead-time. The legislation did not receive Royal Assent until just before start-up. While there was no **program reason** that registration could not begin before Royal Assent, the

6 For several reasons (e.g. the massive scale of the operation; systems considerations), initial registration was a Headquarters responsibility. This "signed up" the bulk of the vendor population. The Regions are largely responsible for subsequent addition of new registrants.

Speaker's ruling meant that Excise could not begin signing up vendors until the will of Parliament was reasonably clear. This was considered to be the date when the legislation received third reading in the House of Commons. Even that took longer than expected, finally happening on April 10, 1990. Within days, the registration mail-out began, but the lead-time was now down to just over eight months.

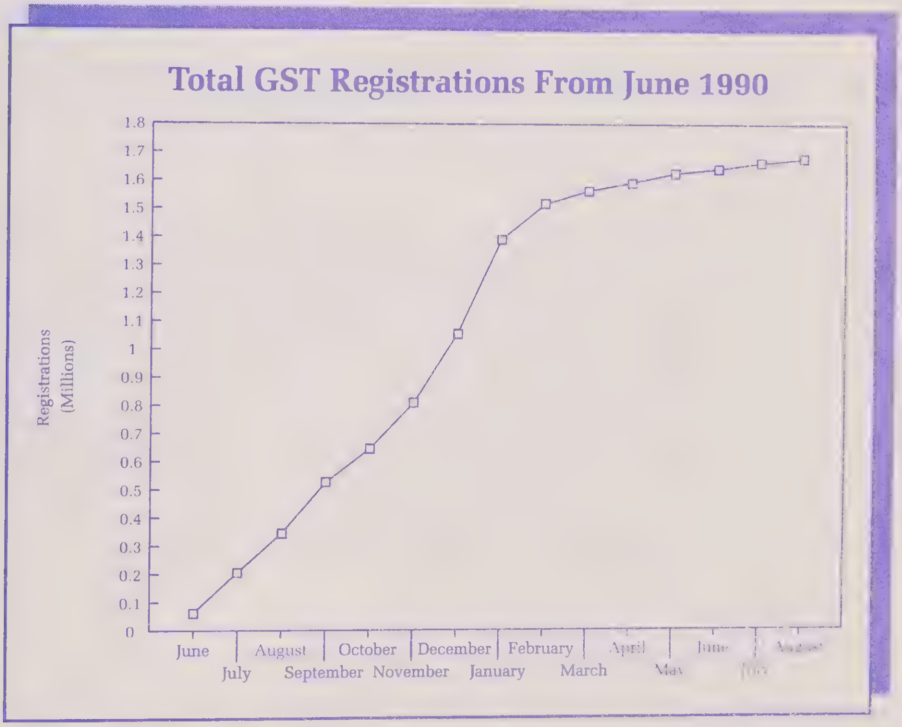
- Finding out who to write to was not easy. Every business enterprise in the country had to be contacted, yet Excise had FST records on, at most, about five per cent of these. Revenue Canada Taxation (Customs and Excise's sister department that reports to the same Minister) played a critical role by providing lists of businesses on its Income Tax rolls. This was the crucial core of Excise's starting GST files.

- Nevertheless, no database could be totally up-to-date. There are about 300,000 business births and deaths in Canada each year. Inevitably, this meant that several thousand registration forms were sent to bankrupt, disappeared, or even dead business owners. More significantly, many, many new businesses would go completely unidentified unless Excise made special efforts to identify them. These efforts included putting registration forms in Post Offices, advertising campaigns to encourage early registration, and a program whereby Regional Excise officers combed local sources (e.g. the yellow pages, municipal business registries) for vendors who were not in the original database.

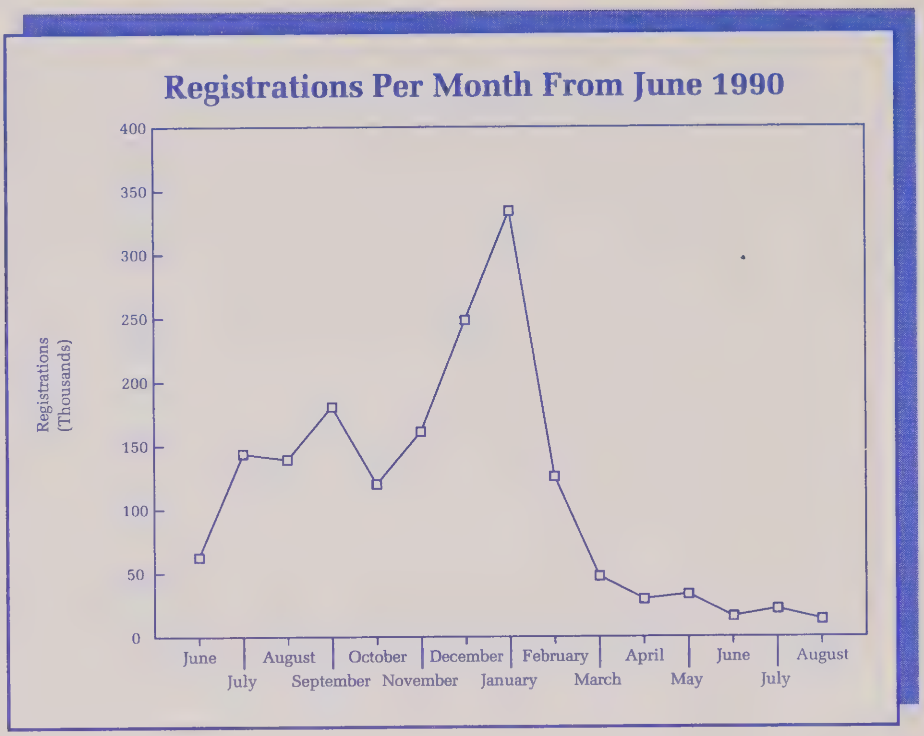
But the registration program's most serious problem – and probably Excise's worst disappointment in the whole start-up project – was slow response. By the beginning of November, only about 678,000 registration forms had been returned and processed. In other words, **the Branch had not yet heard from about 60% of the businesses that had to start collecting the GST within nine short weeks!**

There were probably several reasons for this. However, the most significant goes back to the tortured passage of the legislation. Even in the late fall of 1990, many Canadians, watching the Senate GST debate unfold, believed that the GST might not pass. As a result, thousands of businesses simply postponed registering until the last possible moment.

This produced a last-minute registration rush of incredible proportions. Moreover, since most businesses that had not registered had also made few other preparations for the tax, Excise information services became inundated with enquiries.



Total GST Registrations From June 1990



November through February were absolutely frantic. Staff were diverted from other areas to help with the registration influx. Long overtime hours became the norm. Pragmatically, but unfortunately, Excise had no choice but to start taking registrations over the phone. This got vendors "signed up" fast. However, it caused real data entry and data integrity problems that bedevilled the system's handling of tax returns through much of 1991.

In any event, throughout December, 1990, and January, 1991 (and this includes weekends and New Year's Day, when most Excise offices were working) an average of almost 11,000 vendors were registered each day!

By January 1, just over 1.1 million businesses had registered. In the circumstances, this was a major accomplishment, but it was still 500,000 vendors short of the overall population. Fortunately, through the superhuman efforts of hundreds of staff, this gap was largely closed over the next few weeks.

Vendor education

Registering businesses was only part of getting them ready for the GST. They also had to know what they were doing. And a major part of Excise's job was to make sure that they did know.

The communications and consultations programs described in the last chapter had important vendor education goals. But Excise also launched a suite of other education activities (all of which were planned in the Blue Book) during 1990. Summary descriptions of these programs (the Advisory Program, seminars, the Enquiries Program, and publications) follow.

GST Vendor Education Programs

Advisory Program

- Regional Excise officers gave GST advice to individual businesses by telephone or by visit; advice could include reviewing record-keeping and accounting procedures to identify possible problems.
- Advice was usually in response to business requests; however, Advisory officers also contacted businesses in sectors likely to have problems, and offered assistance.
- The program began in April, 1990, and lasted for one year.
- Assistance was given to 76,177 businesses, more than 80% of them by telephone.

Seminar Program

- Regional Excise officers (sometimes with Headquarters help) gave presentations, on request, to organizations that wanted to know how the GST works and how it would affect their operations.
- "Business information sessions" were a pro-active type of seminar. They were not specifically requested, but were given at a certain place and time for anyone interested. They were often sponsored jointly by Excise and local Chambers of Commerce or municipalities.
- The program was highly successful. 4,870 seminars were given between April, 1990, and April, 1991.

cont'd

GST Vendor Education Programs (cont'd)

Vendor Enquiries

- Excise Regions offer a telephone enquiry service, with "hot lines" and toll-free 1-800 numbers. The service began in April, 1990.
- Slow initial demand gave way to system overload in the fall of 1990. Emergency expansion of facilities was needed.
- Enquiries officers handled over 670,000 calls in December, 1990, and 1.6 million in the December-through-February period.

Publications

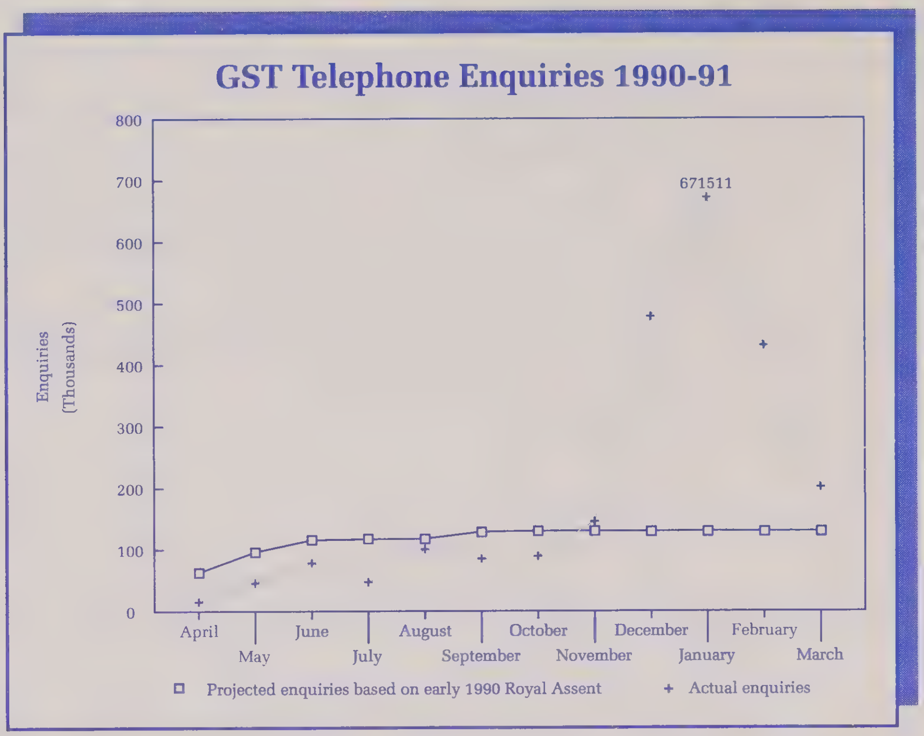
- Excise prepared various types of publications to meet the needs of specific audiences:
    - **booklets and pamphlets** – basic information for the average registrant.
    - **guides** – more detailed reference material for specific groups (e.g., farmers, pharmacies).
    - **memoranda** – detailed legislative, policy, and administrative information for tax professionals (and Excise staff).
    - **Technical Information Bulletins** – "fast-track" information for registrants and tax professionals.
- The publications were written by the Headquarters Technical Information Division (part of the Policy and Legislation Directorate). Many publications were focus-tested with members of the target audiences and with business associations.
- 112 different publications were distributed by January 1, 1991, most in quantities of several hundred thousands or more. They are available at Excise offices across the country.
- Technical Information also provides an electronic database service. This allows electronic access to: all publications, a bulletin board highlighting policy announcements, the GST legislation and regulations, and a data bank of over 10,000 GST questions and answers.

Excise's strategy was to encourage and assist the professional community to get "big business" ready. To do this, a special mail-out program was established to get all publications and updates into the hands of some 30,000 tax accountants and lawyers. On the other hand, small businesses, and rural communities less likely to be contacted by the professionals, were the focus of "face-to-face" vendor education activities like the Advisory and seminar programs.

Again, lead-time was crucial. It simply takes a while for more than a million-and-a-half firms to be brought up to speed on something as fundamental to their operations as the GST. Excise planning had foreseen this, and the key vendor education activities began in April, nine months before the launch. However, even though Excise was ready to help, not much help was wanted – at least for a while.

As with registration, the delay in the legislation seemed to keep many vendors' preparations on hold. Requests to Excise for Advisory Program assistance and for seminars, as well as calls to the Enquiry phones, were much slower to develop than was originally anticipated. Not until the fall of 1990, when it started to look like the tax really would go through, did potential registrants really start seeking assistance in earnest. And then came the deluge.

This was particularly true for Enquiries. The program became swamped well beyond its available capacity in the fall of 1990. This was one of the project's mini-crises. From a political and public relations perspective, vendor disgruntlement over not being able to get through to Enquiries officers had to be avoided as much as possible. Moreover, the whole point of the program was to help businesses to implement the tax, and if they couldn't get through, they couldn't be helped.



How the problem was solved is a good example of the Department's flexibility, responsiveness and team-work during the project. A "Calls Action Team" was set up to urgently assess the situation and propose solutions. The Team was led by Corporate Management's facilities management unit; several concerned Project Team units (particularly Field Operations) participated, as did the equipment supplier, Telecom Canada.

The result, within weeks, was a quantum increase in Enquiries capacity. This was achieved through: increasing the number of phone lines; installing a management information system to monitor call traffic; moving officers from the Advisory Program to Enquiries; instituting a receptionist-service approach and having officers call back; arranging to have Finance and Consumer Information Office hot lines handle some Excise questions.

The Enquiries Program also illustrates another characteristic of how Excise approached the GST project. In several areas (e.g. systems, various aspects of administrative policy development, publications) the Branch quite honestly sought constructive criticism of what it was doing or proposing to do.

Vendor Enquiries: we're here to answer your GST questions.

In the case of Enquiries, the Branch retained a consulting firm to monitor the accessibility, accuracy, and courteousness of the telephone service in each Region. The consultants surveyed people who had called the information lines, and also had interviewers anonymously telephone the Enquiries numbers with a series of test questions.

The consultants did four surveys between September, 1990, and March, 1991. Each time, they concluded that Excise was providing a high calibre of service, but they also advised where quality might be in danger of slipping. The more important point for our present analysis, though, is that the Branch used this type of study as a management tool to try to improve its level of service.

An important facet of the vendor education programs (and to some extent, registration) is that they allowed lots of scope for Regional initiative. Essentially, the programs had been designed in Headquarters. However, field staff quickly developed their own sense of what worked and what didn't, and they were not reluctant to try out new ideas. These "innovations" included:

- appearance by Enquiries staff, in several Regions, on community television discussion panels and radio phone-in shows (including at least one live radio show from a supermarket, focusing on what is and is not taxable);

- after-hours seminars delivered on the premises for shopping mall business owners, in some Pacific Region communities;

- a highly successful program of mailing seminar invitations to **all** the businesses in small Prairie towns, after the usual seminar advertising methods had produced poor attendance;

- door-to-door business blitzes by registration staff in several small Alberta communities, and by teams of Enquiries, registration and Advisory staff in La Pas and Flin Flon.

A few extra words about publications are also in order. The publications effort was a prodigious one. This stemmed in part from the sheer numbers of copies required to reach target audiences (in both official languages), coupled with tight publication deadlines. The whole process was immensely complicated by the fact that policy details were being finalized, and sometimes changed, just as the documents were needed (and, in some cases, afterwards!).

This caused no end of contingency planning around printing and distribution. Printing runs of hundreds of thousands of copies often had to be rescheduled at the last minute, while texts were revised and translations adjusted.[7] Diplomatic skills were severely tested, as bad news (and no deadline extensions) had to be repeatedly announced to printing contractors who were often already stretched to capacity with other government print jobs. Fairly flexible purse strings were also needed to meet the unavoidable premium printing prices that resulted.

Print Runs of Selected Publications (to September, 1991)

Publication Title	Copies Printed (000) English	French
Should I Register *	2,400	400
Simplified Accounting Methods for Small Business *	1,400	473
GST Signs: Guidelines and Order Form *	400	150
Guide for Small Business **	2,200	528
GST Rebates for Visitors *	5,600	1,100
Registration Information for Taxi and Limousine Operators *	165	46
Charities **	444	80
Food Services Industry **	355	116
Retailers **	452	152
Non-profit Organizations **	300	67
GST Basics for Business ***	1,500	550
Guide to the GST Tax Return for Registrants **	1,700	480
Municipalities **	92	30

* – pamphlet ** – guide *** – tabloid

7 One indication of the scale of the GST project is seen in Excise's translation requirements for publications, forms, training materials and other documents. For fiscal year 1990-91, about 4.6 million words were translated from English to French or vice versa. A further 3 million words were translated between April, 1991, and January, 1992.

These complications were particularly true of the "registration acknowledgement" kit. This package of key publications contained the basic information that Excise felt was crucial to registrants. The kit was sent to every vendor as he/she registered, which meant that all of the component publications had to be available from about the beginning of June, 1990.

The formidable logistical problems of printing and distribution were also accompanied by some confusion in approval processes. It seemed that almost everyone "owned" many of the publications. Technical Information did the actual drafting. Other parts of Policy and Legislation Directorate monitored policy content. Different groups in Program Development carefully weighed every word written about registration, returns and payments, and so on. Communications were the guardians of the Department's overall message, and also handled printing and distribution. Legal Services scrupulously reviewed all wording to make sure that nothing contravened the intent of the Speaker's ruling.[8] And in some more sensitive instances, the Minister, Deputy, ADM and other senior officials took a rather detailed interest.[9]

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8 The wording in all publications had to be consistent with the Speaker's ruling. Anything distributed before Royal Assent could only talk about **proposed** aspects of the tax. Ultimately, Legal Services helped prepare a "disclaimer" that appeared on the inside cover of each publication. This noted that the tax was not yet law, that material in the publication was subject to change, and that it was being published simply to help businesses prepare.

9 The Department of Finance also reviewed many Excise GST publications.

The GST Sign Program
A Special Excise Service to Vendors

Excise provided free signs and decals to help businesses inform customers whether or not GST is included in posted prices. Special decals were provided for use on vending machines and in taxis.

Program Statistics (to July 1, 1991)

Sample kits mailed	300,000
Sign kits ordered	233,799
Vending machine decals ordered	302,033
Taxi decals ordered	43,268

At times, especially early on, it seemed as if everyone had a say, but no one had the **final** say. For a while, a publications committee reviewed each document – usually several times and almost in word-by-word detail. When this proved too cumbersome, progressively more streamlined approaches were developed to obtain approval sign-off from Directors-General whose groups were implicated in any particular publication. Eventually, a reasonably smooth process emerged.

Publications:
GST information to meet your special business needs.

Clean Launch Objective: Put Systems, Staff and Accommodations in Place

The final objective of the clean launch was, effectively, to establish the **operational** GST. This meant putting in place the people, systems (i.e. tax administration programs and the computers that automated those programs) and facilities needed to run the new tax on a permanent basis. The result is a new Excise Branch.

Program Development: The "Tax Machinery"

Program Objectives	Major Challenges
Registration: to register (i.e. collect basic data, assign identification numbers, process elections) for every business and organization collecting GST; to keep registration list up-to-date for new businesses and "exits".	– Identify, register and educate vendors before January 1, 1991. – Keep vendor list up-to-date; there are 300,000 business births and deaths per year. – Initial mail-out of 1.9 million registration forms in April, 1990. Slow response became flood in December and January, requiring emergency processing efforts. – Develop procedures for 20 new elections.
Returns and Payments: to set up facilities and procedures for handling GST remitted by registrants.	– Set up facilities to send out 9 million envelopes per year and handle 10.5 million incoming documents (up to 131,000 per day!). Facilities had to be operational by January 1. – Set up processes to send new return forms to 1.7 million vendors before each reporting period; for banks and processing centre to handle returns; to deposit GST remitted; for refund cheques from Supply and Services.
Collections: to retrieve GST owing that registrants have not remitted.	– Identify amounts due. Establish increasingly vigourous approaches, first by mail, then by phone or visit, to collect monies due. – Activities phase-in after January 1.
Audit: to establish procedures and criteria to verify the accuracy of registrants' GST returns.	– Develop audit checks ranging from simple (e.g. verifying accuracy of data on GST return forms) to in-depth (e.g. company visits to examine books, receipts, etc.). Major problem is ratio of registrants to available auditors. – Most audit activities phase-in after launch.
Enforcement and Investigations: to investigate fraudulent and criminal behaviour, and prosecute offences.	– Set up relationships with policing agencies. – New Zealand experience suggested more concern needed about fraud, and identified potential fraud areas; increased staff needs. – Activities phase-in, but fraud issue, especially on FST rebates, is immediate.
Rebate Programs: to design continuing rebate programs (e.g. tourist rebates; formula rebates for GST paid by universities, hospitals, etc.), and transitional FST rebates for new homes and goods in inventory (to avoid collecting both GST and FST on the same goods).	– Major FST rebate challenge was lateness of policy (i.e. formula for vendors to calculate rebate entitlement), and the need to incorporate policy in procedures, and communicate to vendors before launch. – Have tourist rebate procedures operational by January 1. Have information available at border points and tourist-related businesses. Make arrangements for duty-free stores to process rebates on-site.

The "tax machinery"

The heart of the tax is the array of programs by which Excise will collect, monitor, audit and otherwise administer the GST. These programs were all identified and outlined in the Blue Book. It was their implementation that gave many of the other planning streams (e.g. systems development, staffing, accommodations) their very reasons for existence.

The design and functional management of these elements (including the registration program discussed above) were the responsibility of the Project Team's "Program Development" unit (now the permanent "Operations Directorate"). The programs are actually delivered by personnel in the Regional and District offices.

The tax programs and some of the challenges involved are summarized on the preceding page. A reader not familiar with tax administration may have difficulty grasping the size of the job. However, the newness of the tax concepts, the numbers of vendors, and the policy delays and changes meant that an incredible amount of work had to be done by a large number of people in the face of an almost impossible deadline.

One of the major challenges that appeared out of the blue was the quantum increase in the number of elections available to vendors. As mentioned earlier, the first draft of the legislation offered only four elections. But, all of a sudden, in January, 1990, there were twenty-four!!

This had serious program development implications. Policies, procedures and detailed rules had to be formulated for each election – to specify what the vendor could do, and also to define how the Branch's registrations, returns-and-payments, collections and audit activities would actually handle the elections. Forms had to be developed (and made available), covering both a vendor's wish to use any election, and also the desire to stop using it at some future time. And everything had to be encoded in

the system software – if it wasn't already too late. In fact, the system's critical path meant that some programming was already "frozen", and certain elections (e.g. joint filing by closely related corporations), had to be handled manually throughout 1991.

Except for registration, none of the tax machinery programs actually became operational before January 1. Some elements (e.g. tourist rebates and FST rebates) had to be up and running immediately upon launch, while other activities (e.g. collections, audit) were gradually phased-in as registrants started sending in their tax returns.

But just because programs didn't actually get off the ground until launch date or later does not mean that the pace was relaxed.

Facilities, computers, procedures, and most importantly, well-trained people, all had to be in place when the GST started coming in. There was really no leeway to start thinking about buying computers, finding office space, or designing training courses, once the postal trucks started appearing with hundreds of thousands of tax returns.

In fact, one of the crucial "front-end" efforts was gearing up to handle the paper-flow. And the paper-flow will be massive: Excise expects to **receive** about 10.5 million GST documents per year and to send out another 9 million envelopes containing various document packages. This is the processing centre's job.

The tax return processing centre is one area where there was a substantial deviation from Blue Book plans. Initially, returns were to be processed in each Region (as they were under the FST). However, a visit to a state sales tax processing centre in Texas convinced program planners that centralized processing

would offer cost savings, technological economies of scale, and, crucially, program consistency across the country. Plans were changed.

Setting up the processing centre is actually a two-step project. First, an **interim** returns and payments processing centre (IPC) was established in Ottawa. This will eventually give way to the permanent centre in Summerside, Prince Edward Island.

More than any place else, the IPC is where the GST "happens". It is where registrants (or chartered banks on registrants' behalf) send the GST they collect and all the paperwork that goes with it. It is where most data on registrants' accounts is entered into the computer system. The IPC also handles the paper flowing in the reverse direction. It packages and sends out new return forms and accompanying material to every registrant before every filing period. It also requisitions registrants' and tourist rebate cheques from Supply and Services.

The IPC is, visually, the most exciting element of the GST. Speed is of the essence, both for Excise and vendors. High-volume, state-of-the-art machinery opens and sorts thousands and thousands of pieces of incoming mail every day. Other machinery handles outgoing mail, sorting and inserting the various forms and publications that go to different registrants, addressing envelopes, and moving them on to be posted.

Setting up the IPC was something of a technological challenge for Excise. The Branch had not been involved in high-volume document processing in the past. Initially, it did not have the in-house capacity to visualize and design the centre, and to evaluate the technology and equipment options. Many visits were made to other high-volume processing centres (e.g. Taxation, the Post Office), and a lot of reliance was placed on consultants. And, perhaps most importantly, Excise was able to recruit some key personnel from Taxation's Income Tax processing facilities.

But Excise had other "adventures" in setting up the IPC. A building was chosen for the centre within the planning time frame. However, the Public Works tendering process to acquire and prepare the site was challenged in court. The ensuing delay meant that Excise still did not know, as late as April of 1990, where the IPC would go.

To meet the January 1 deadline, the Centre had to be fitted up and ready for operational testing by November. But with seven months to go, there was only a plan: no 12,000 square metre building, no furniture, none of the highly specialized sorting and handling machinery, none of the 600 trained staff.

GST Paper-flow
Estimated* 1992 Totals (000s)

Envelopes to Excise by mail	
Instalments	36.0
Payments	2,948.4
Refund requests	1,587.5
	4,571.9
Documents to Excise	
Return forms	
• by mail	4,535.9
• via banks	2,358.7
• via GST ofices	589.7
Cheques (by mail)	2,984.4
Remittances	
• by mail	36.0
• via banks	28.8
• via GST offices	7.2
	10,540.7

* as of March, 1991

Excise was just getting some urgent contingency planning[10] under way (one option being to turf Headquarters staff out of their new building, so the IPC could move in), when the court challenge was resolved. Subsequent breakneck efforts – by Customs and Excise, Public Works and Supply and Services – managed to get the Centre open on time. But it was a near thing.

The permanent processing centre in Summerside is scheduled to begin operations in late 1993. It was thus not critical to the launch **per se**. However, Summerside did involve the Minister, the Department, and senior Branch

10 The contingency planning also included preparing detailed lay-outs for **each** of the three sites involved in the dispute. That way, work could begin immediately after the dispute was settled, whichever site was chosen.

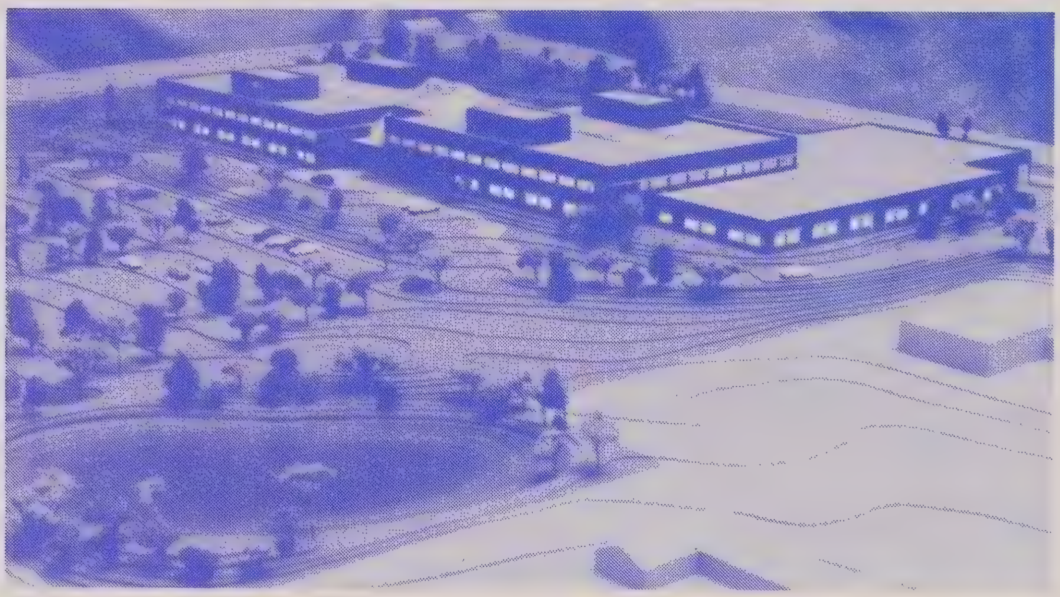
officials in planning and highly sensitive community consultations at a time when all energies were needed to get ready for the launch.

Excise treated Summerside more or less as a separate GST project in its own right. A Director General with substantial regional development experience was recruited from outside the Department to develop the requirements and to get the site on-line. This requires continuing negotiations with a host of federal agencies. It also involves the delicate diplomatic tasks of making sure that the municipal and provincial governments are happy that all efforts are being made to provide quality jobs to replace those lost due to the Summerside base closure.

The inter-agency cooperation required for Summerside was typical of many aspects of the GST project. For instance, Public Works Canada (PWC), as the government's "landlord", acquired the Summerside site, and is in charge of facilities construction. PWC performed the same function with respect to the IPC, and for the vastly expanded GST accommodations needs across the entire Excise organization (see the section on "Accommodations" later in this chapter).

Another partner was Supply and Services Canada (SSC). The GST project demanded an intimate, multi-faceted relationship between SSC and Excise (generally through Corporate Management Branch) for procurement of furniture, consulting contracts, printing contracts, IPC equipment, systems hardware, and so on.

But SSC also has an **operational program role** in GST implementation. Many thousands of cheques have to be issued annually under the various GST rebate programs (e.g. for tourists; for vendors whose ITCs exceed tax collected; and for the transitional FST rebate program). SSC is responsible for issuing government cheques, and thus had to work closely with Excise in the planning of the rebate programs and the related cheque-processing procedures.



A look into the future: model for the GST Processing Centre in Summerside.

Before leaving the "tax machinery", we would be remiss if we did not discuss one major unplanned distraction. When the GST was announced, it was announced as a federal-only tax. Integration of provincial sales taxes was thus **not** to be part of the launch preparations. Excise planning and program development (as we have already noted) were clearly and explicitly tied to this assumption. But things changed.

The efforts required to accommodate Quebec and Saskatchewan harmonization were a serious drain on otherwise more-than-occupied Program Development resources. In particular, the fact that the Quebec government would be taking over administration of the GST

in that Province had tremendously far-reaching implications. In the final analysis, Excise had to be sure that the Province's "tax machinery" adequately reflected national GST priorities, standards, and criteria. This meant that hundreds of registration, collections, audit and other program details had to be sorted out between Excise and Revenu Québec staff.

This work began in earnest in the fall of 1990, when the launch preparations were at their frenzied peak, and has continued ever since. Fortunately, despite the added stress and strain on Excise staff, this did not result in any publicly visible problems with the launch.

Behind the scenes, though, there have been some serious worries during the immediate post-launch period. These relate primarily to the GST system, or more correctly, to the fact that the system and the GST "tax machinery" are inseparable.

The system will be discussed in much more detail below. However, for our present purposes, it is sufficient to note that when the tax went "live" on January 1, the system went "live" too. But inevitably, as we shall also discuss later, there were many "bugs" (some normal and not too serious, others more fundamental) that had to be worked out.

This was expected. But what was not expected was that the program staff and (in particular) the systems staff who should have been scrambling to remedy these problems, would be also be working to implement the provincial harmonization decisions. Excise has managed to cope, through a lot of hard work and, in many instances, systems "bandaids". But more fundamental systems solutions have had to await completion of the harmonization work. As a result, the Branch remains far more vulnerable than it expected to be in terms of its "tax machinery" capacities.

And now, with this introduction, we turn to what many Excise planners probably found to be the most exciting – and trying – element of the launch preparations.

Systems development

The only way to deliver the "tax machinery" programs just outlined is through massive automation. In very real terms: no automation, no tax. And this brings us to what was possibly the largest computer system development project ever undertaken within the federal government.

But one very fundamental point has to be borne in mind. The GST systems project was **not** the automation of existing manual processes. The computers and the new tax were integrated from the very start. In other words, systems development was totally intrinsic to the tax. It is here that the launch eventually became a bit "dirtier".

In terms of scale, the GST systems project really was significant. The system has to handle all the data entry and "tax machinery" manipulations required for Excise to manage and monitor 1.7 million client GST accounts. To do so, the system and its communications linkages tie the Ottawa-based computer centre (which has two mainframe computers) and the Interim Processing Centre (and eventually Summerside), together with Excise Headquarters, 56 Regional and District offices, and Customs Operations offices across the country.

But the system is more. It brought Excise into the computer age in a spectacular fashion. Not only are all the offices linked, but **practically every staff member in the entire, drastically expanded Excise Branch** has a personal computer (either desktop or laptop). These 5,000 or so personal computers are tied directly to the mainframe computers to allow on-line access (e.g. for account verification; for audit selection; etc.) to current client account information from anywhere in the country. Most

Excise groups or offices also have their computers linked in Local Area Networks, and all of these LANs (76 in Excise Regions, 20 in Headquarters, and 4 in the IPC) are, in turn, serviced by the mainframes. And this is all supported by fully integrated state-of-the-art data communications technology.

The systems task was laid out in the Blue Book. Initial systems architecture studies were carried out in late 1988, and development work began in earnest with the April 1989 announcement of the federal-only GST option.

GST Systems Development
1989-90 to 1993-94

Capital	**($000)**
Mainframe centre	$43,295
Data communications	6,256
GST office support and other C&E GST costs	49,322
Interim processing centre	15,006
Total Capital	**$113,879**
O&M (including consultants)	**135,559**
Total Cost	**$249,438**

The system was big enough that its development had to be structured as a Major Crown Project (MCP). Thus, it needed separate Treasury Board approval, periodic project briefs to Treasury Board officials, and the guiding hand of an interdepartmental review mechanism (in this case, the GST Implementation Committee chaired by the Excise ADM).

Because of the size and absolute importance of the systems project, the Department needed full assurance that it was proceeding along the right track. This comfort was obtained through a series of comprehensive "risk assessments" by outside experts, on either the project as a whole, or on key individual decisions (such as the decision to acquire a second mainframe computer). As we noted earlier, one of these risk assessment studies led to the Master Plan.

Actually the risk assessments had a very concrete impact on systems planning. One such review determined that two original system aspects (the use of DB2 software technology in such a large transaction-based system, and the use of scanning technologies in the IPC) were risks to the January 1 target. Parallel contingency work was begun on more conventional technologies in case the new approaches did not prove themselves within the required time frame. In fact, scanners would **not** have been ready for the launch, and they will now be installed in Summerside.

Development costs for the system, through fiscal year 1993-94, are estimated at almost $250 million. If salaries and other ongoing operational costs are included, the overall 5-year expenditure on the system would be just over $500 million.

Organizationally, the GST system was a Departmental project, not just an Excise one. It was the joint responsibility of the GST Systems Directorate (part of the Project Team) and the corporate Systems Planning and Development Directorate (SPD).[11] GST Systems was a descendent of the Excise systems group set up to handle the earlier ECS project.

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11 SPD has since become a full-fledged Branch within the Customs and Excise structure. It is now called the Information Technologies Branch, and has its own Assistant Deputy Minister.

Functionally, GST Systems prepared the "business systems specifications". These were statements of what the system was actually supposed to do for the registration, collections, audit and other tax programs. These specifications were then passed on to SPD. The latter developed the necessary software and acquired the hardware (including the two mainframe computers) to meet the specifications. In essence, GST Systems were SPD's clients.

Systems testing: an important part of the job.

But GST Systems were themselves intermediaries. The registration, collections, audit and other Program Development units were the ones who knew what **their** programs were, and what the system had to deliver. GST Systems worked with these groups to translate the tax program needs into sufficiently technical systems terms that SPD could then act upon. In other words, Program Development were GST System's clients.

This multiple ownership caused problems, as we shall see shortly. However, the Department did succeed in getting the system up and running on time (including handling the initial registration beginning in April, 1990), and has got almost every Excise staff member sitting in front of a personal computer tied into the mainframes.

Intellectually and logistically, this was a major triumph. The scale of the project, and the time frame in which it had to be accomplished, has been daunting, to say the least. And along the way, SPD and GST Systems took some rather innovative systems technology approaches (e.g. use of Computer-Aided Software Engineering (CASE) technology to develop system software) that have been highly regarded in the technical community. Indeed, the Deputy Minister has recently been presented with the Award of Excellence of the Society of Canadian Office Automation Professionals. The Department received the award for a combination of the technological and operational scope of the project, and the fact that it was successfully developed and brought into operation within such a limited time frame.

The time frame was a problem.[12] While the rigidity of the January 1 deadline may have provided a useful discipline for the GST project as a whole, it was a severe liability for systems development. Software had to be developed essentially from scratch; it had to handle registrant behaviour that Excise could only guess at. And perhaps most important of all, it had to encompass many crucial little details whose resolution was tied up with the delay in finalizing the legislation.

In an orderly systems world, the details of GST legislative policy would have been sorted out first. Administrative program design (e.g. collections, audit) would have come next, followed by clear statements to the system developers as to what the system would have to deliver for these programs. The final step (once the systems designers did their work) would be a period of pilot testing to work out any bugs – and to reassure managers that the system really could do what it was supposed to do.

12 The Project Team's Director General for Systems, Mr. George Kirkpatrick, recalls that, in fact, there was really no problem at all. Throughout the project, he was able to sleep just like a baby: every two hours he woke up screaming!

The GST reality was quite different. As already mentioned, legislative details were being worked out right up to the launch date. Major adjustments (particularly the addition of all the new elections) were required after program and system development were well under way. In some instances, the system's own "drop-dead dates" demanded that software decisions be taken before legislative or program details were finalized.

And there was little time to readjust. When even the best of all systems worlds involves inevitable teething problems, the GST system could only be put through minimal pilot testing. Most of its shakedown has had to be done under "live" conditions.

And that shakedown has been unnerving for many Excise officials. No one in Customs and Excise thought that the GST system would be totally "bug-free". However, the post-launch days have revealed rather more fundamental design problems, as the various "tax machinery" programs have started to come on-stream.

The result has been the "WIP". This three-letter word has had a four-letter impact on Excise staff during most of 1991. It stands for "Work in Progress", and represents registrant transactions that the system has been unable to process properly, and that are awaiting resolution. Of course, there was always going to be a WIP, since shakedown troubles were inevitable. But in some cases, the system had not really been programmed to cope.

There were several factors at play here. Large numbers of registrants did "imaginative" things with their GST documentation that no one ever guessed they would do. Some of the programming decisions that had to be taken

ahead of tax policy decisions were a problem (since some of the policies turned out to be different than expected). As mentioned earlier, significant systems resources had to be devoted to implement harmonization with Quebec (and to a much lesser extent, Saskatchewan), when they would normally have been working on system improvements. And, from the beginning, there were the ownership problems.

SPD and GST Systems both owned the system. This resulted in some turf battles and organizational adjustments during the project. At first, the SPD staff participating in the project reported to Excise; later, this arrangement was changed and they again reported to SPD. Similarly, the Director-General-level EDP Committee that coordinated the project was originally chaired by Excise, but then moved to SPD chairmanship.

But the fundamental issue was probably the linkage between the system and the tax, or perhaps more accurately, the width of the gap between the system builders and the system users. As mentioned above, GST Systems translated Program Development's needs into systems terms for SPD implementation. Both GST Systems and Program Development owned the business systems specifications, but the bottom line is that Program Development (except for registration, which was a program/systems success) were somewhat less aggressive owners of what the system is supposed to do than they should have been.

Returning to the point made at the beginning of this section, the tax programs, operationally and conceptually, really were inseparable from the system. Ultimately, it was not enough to just pass the specifications on: the program people really had to feel that they owned the system too. The eventual result was that when the system was finally asked to do some of the "program things" that it was supposed to do, it didn't. And the WIP mushroomed.

A different aspect of systems ownership relates to the Regions. The system was planned and developed in Ottawa. Its software reflects interactions between systems staff and functional tax specialists in Ottawa. The mainframes at the heart of the system are in Ottawa. In other words, the system – which is so vital to the operation of the tax – may be **for** the Regions, but it is not **of** the Regions or **by** the Regions.

There is at least some sense among senior Regional staff that the system was "imposed" on them. This is not to argue that the system should necessarily be any different. However, this view has it that "systems people live in a world of their own", and that throughout the project, there was an uneasy feeling that the Regions were in the hands of something they did not know and could not control. This feeling probably intensified during the post-launch system "glitches", when (in the words of one RD), "we could only input on the impact of not solving the problems, and not on how to solve them".

In any event, most of the systems problems have now either been worked out or worked around. However, this has come about only after crash remedial efforts. And Excise has been most fortunate that its systems vulnerability did not turn into a serious embarrassment.

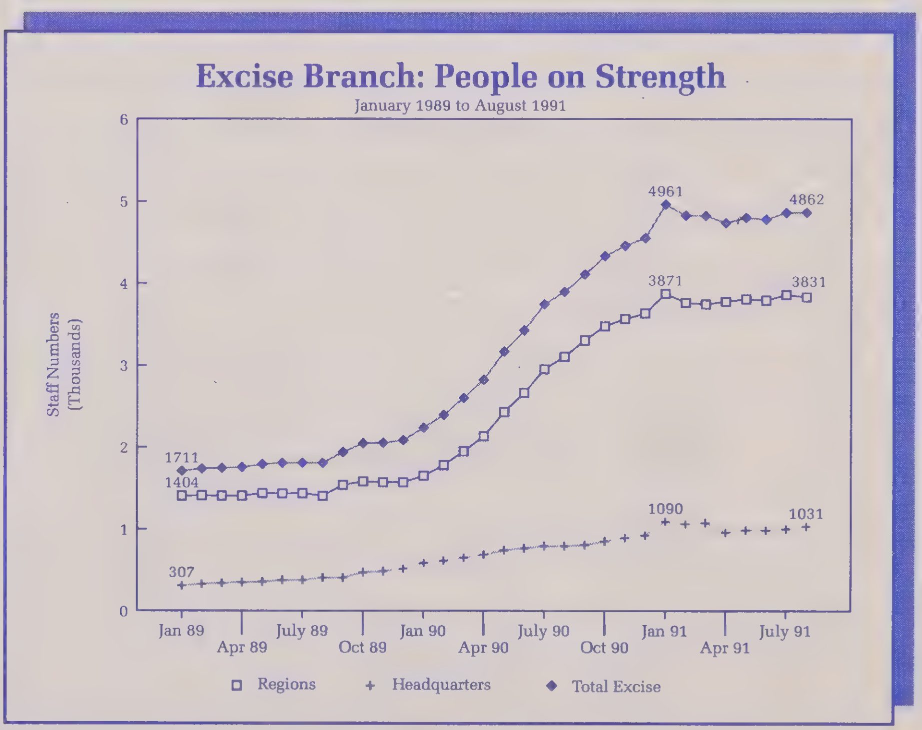
But a lesson has been learned, and Excise has been examining ways to make sure that the tax/systems integration is reinforced through the actual structure of the organization. Moreover, field staff are being directly included in testing further system developments.

Human resources: staffing

Staffing was a major task. In fact, it was effectively three tasks: staffing the Headquarters Project Team for the pre-launch period; establishing, staffing and training (the next section discusses training in more detail) the permanent new Excise/GST Branch; and the unforeseen job of working out the transfer of Excise personnel in Quebec to the provincial public service.

The first two functions were outlined in some detail in the Blue Book, and expanded upon (for the Regions) in the Red Book. Once the project started, a dedicated GST human resources group was detached to Excise from the corporate Personnel Administration Branch. This group moved to the same building as the rest of the Project Team.

Staffing the Project Team was a more or less straightforward, if somewhat hectic, exercise. Excise FST staff, occupying their current positions, were reassigned to GST planning, as the wind-up of the old tax permitted. Other staff were recruited into temporary positions from other departments (Taxation was particularly helpful in making key people available) and from outside government, using secondments, special assignments, and so on. And, finally, there were large numbers of consultants, (especially in systems), many of them working full-time and on the premises.



One staffing concern was the Speaker's ruling. Commitments of permanent employment to secondees and other new recruits would have "anticipated" the legislation,

and would have thus contravened the ruling. Such commitments were scrupulously avoided. This probably lost Excise some potentially valuable employees. On the other hand, career advancement opportunities elsewhere in the Public Service were not terribly abundant at the time, and some found the GST project to be an interesting challenge, regardless of whether or not there was a permanent job at the end.

Establishing the "new Excise" was the real core of Human Resources' efforts. A detailed "Human Resources Management Framework" was developed and approved in early 1990. This outlined the philosophies, principles and strategies that would be used in classification and staffing for the permanent organization.

This strategy paper was particularly appreciated in the Regions. It was seen as a clear definition of what the organization would and would not be doing with its people. As one Regional Director describes it, the document was "almost a Bill of Rights for the staff".

Moreover, the strategy was also made available to the staff unions at an early date, and was a cornerstone of excellent union-management relationships during the project. In fact, it should be noted that Departmental management, and the Excise ADM in particular, worked very assiduously to maintain open and effective communications with the unions throughout the project.

In principle, the process of establishing the new Excise/GST Branch was straightforward. Revised organizational structures were developed for Headquarters and the Regions, and were submitted for Treasury Board approval. Proposed senior management positions were also sent for Treasury Board approval. Classification of all other positions followed, and staffing began.

In practice, the process was somewhat less easy. The sheer pressure of events was a major problem. The many and time-consuming activities involved in the organizational redesign had to be worked out at the same time as all of the functional units in the Branch were overwhelmed with putting the GST nuts and bolts in place. Careful coordination was required with the Public Service Commission, whose own regional groups handled staffing for Excise Regions. The Speaker's ruling had to be respected, but acceptable ways had to be found to bring sufficient people in so that the tax could actually go into operation on January 1. An orderly and fair process had to be developed to bring FST people into the new organization (a process which was overseen by no less than three different committees of progressively greater seniority).

Staff buildup really began in earnest once the legislation received House of Commons approval in April, 1990, and accelerated during the summer and fall. It is important to note, though, that the placing of staff **in indeterminate positions in the new permanent Excise organization** did not happen for some time. Moreover, the organization was not fully finalized for the Regions until March 1, 1991, and until three months later for Headquarters. Indeed, as this document is being written, Headquarters had still not finished moving its staff into permanent positions. This delay has not been helpful to morale, at least in some quarters.

The harmonization agreement with Quebec led to a major human resource complication. Negotiations on how to transfer the 500 or so Excise staff to the Province were intense, complex and sensitive. The goal was a package that protected salaries, responsibility levels, pensions, and other benefits. Overall, employees had to be reassured that their salaries and career opportunities would be protected when they became provincial public servants.

The intensity and urgency of the GST preparations exacerbated the situation. Continued high morale was absolutely critical. So, in order to pre-empt the rumour mills and their corrosive effects, the Quebec package had to be presented more or less as a **fait accompli**.

Personnel Operations, the GST Federal-Provincial Relations Directorate and the Treasury Board Secretariat worked closely, urgently and intensively (and initially in tight secrecy) to design and negotiate an employee transfer package that both governments could accept. All of this had to be done during the mid-1990 period, when the other "normal" GST pressures were nearly overwhelming.

In any event, Excise staff in Quebec have found the package quite attractive. Initially, over 90% of them accepted a transfer to the Province under the terms that were offered. However, this situation has become more fluid – and less optimistic – since Quebec announced a six-month delay in harmonization.

A final organizational problem occurred after the launch. The February, 1991, Budget resulted in cutbacks in management complement across the government. The crucial issue here was that the new complements were to be a proportion of the number of managers actually in place in a department, rather than a proportion of the number of managerial positions (filled and unfilled) that a department already had.

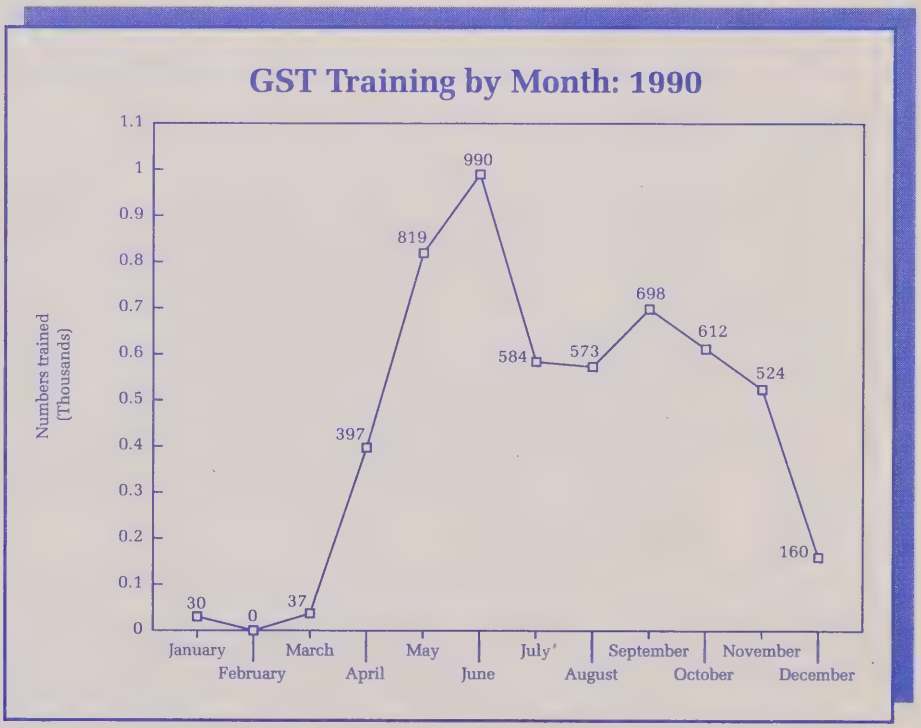
Excise was caught. Because of the pressures of the launch, and also because of the restrictions associated with the Speaker's ruling, the Branch had not yet been able to fill several managerial positions that had been approved for the

new permanent organization. This meant that the cuts were proportionately deeper than in many other departments. Moreover, it meant having to do a painful redesign of the new organization before it had even gotten off the ground.[13]

Human resources: training

Closely related to staffing was training. This was one area where mixed ownership/accountability caused a few problems.

Standardized training is crucial in an organization with thousands of staff scattered all across the country, entrusted with collecting billions of dollars in taxpayers' money, under the authority of a complex and highly technical piece of legislation. Accuracy, consistency and integrity have to be watch-words. A solid employee knowledge-base is essential.



13 A major part of the pain came from having to cut the management complement in the Regional Offices. This meant that several key managers – people whose efforts had been absolutely vital to the launch preparations – had to accept positions in District Offices, instead of the Regional Office jobs that they and the Branch had been envisaging.

Moreover, the Branch was starting from scratch in many ways. The GST was a new tax. For all practical purposes, no one knew very much about it. Yet, Excise staff numbers were to triple within a very short time. The Branch's clientele was multiplying twenty-fold, and huge numbers of these new clients were going to be totally confused by the tax and seeking answers from their local Excise offices. The training implications were enormous.[14]

Again, the starting point was the Blue Book, which laid out the initial training framework. From here, the Excise ADM made the Director General of Field Operations responsible for ensuring that Excise staff across the country would be ready to deliver the tax.

Training: one of the real keys to the clean launch.

Field Operations developed an overall training strategy and plan in September, 1989. A detailed "needs assessment" was then prepared to flesh out training objectives, learner needs and training standards. Curriculum, course content and

14 This was complicated further by the fact that some Regions faced heavy competition from the private sector in recruiting new staff. As a result, there was a certain amount of "staffing to potential". Training becomes even more important under these circumstances.

training materials were developed. Priority was given to "training the trainers", who would in turn provide training to the rest of the staff.

All of this was done in an astonishingly short period. The first trainers were trained in February, 1990, and the first technical courses were delivered in March. The program accelerated rapidly, and by the end of December had handled almost 5600 participants (some individuals were "participants" in more than one course).[15]

The constantly changing technical environment was a severe obstacle. Because policy details kept evolving, and because Excise's own technical programs were still being feverishly developed, the training program had to hit a moving target. Courses had to be designed when policies had not yet been finalized; course material had to be constantly updated; and a real effort had to be made to make sure that the trainers who had already been trained stayed trained.

Logistics was also a problem. The training schedule had to be geared to what was happening in the nine Regions, each of which had its own staff loading and intake levels. Course scheduling and trainer availability were thus rather significant challenges.[16]

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15 Throughout 1990, the training emphasis was on making sure that staff were well prepared for start-up. Courses focussed on registration and on providing technical background to staff involved in vendor education activities. Some effort was also devoted to training staff to communicate with hostile audiences and the media. During 1991, the course emphasis shifted to program activities (like collections and audit) that were gradually phased-in after the launch.

16 Indeed, events were happening so fast that the staffing/training sequence was sometimes extremely condensed. One Regional Director noted that, at one point, local Public Service Commission officials were asked to encourage new recruits to report to work for the first time by a particular date, so that they would not miss their already scheduled training.

The key to the program's success is that it was delivered in the Regions. Each Region appointed a training manager, who was responsible for seeing that everything got done, from identifying potential trainers to scheduling participants to reserving local classroom space. The training managers worked very closely with the Field Operations manager in Headquarters who had overall responsibility for the program.

Regional delivery of the training program was one of the crucial decisions contained in the Red Book. This was a departure from previous Excise practice. For the first time, it gave training ownership to the enthusiastically receptive Regional Directors. It was also the source of a few difficulties.

Previously, most Excise personnel were trained at the Customs and Excise College in Rigaud, Quebec. The College was part of the Personnel Administration Branch. It had overall responsibility for the design, development and delivery of training within the Department.[17] However, there had long been disgruntlement, at least in some Excise quarters, that the College was not adequately meeting the Branch's needs. In fact, some Regions tended to ignore the College and to look after themselves.[18]

By designating Field Operations to coordinate a Regionally-delivered training program, Excise clearly moved to seize ownership of the GST training function. To be fair, the

17 The training of Customs officers is a major College responsibility.

18 The Auditor General's 1989 report was critical of the training function in Excise. The report observed that the roles and responsibilities for training Excise staff were diffused, and that, more broadly, the College was not really meeting its mandate of coordinating all Departmental training matters. The Auditor General urged that a functional unit be established to ensure that there is a focal point to meet all of Excise's GST training needs.

College did not have the resources, nor was it close enough to the rapidly evolving GST technical content, to itself deliver the needed pre-launch training on time.

This is not to say that the College was not involved. College staff worked closely with Field Operations on various training-process issues, and on course methodology and design functions.

However, there were tensions at the management level. The College was still the designated Departmental training authority, and there was a certain degree of planning and decision-making ambiguity between the Branch and the College. Overall, the urgency of the GST start-up was the predominant consideration, and these ambiguities did not prove to be debilitating. However, the issue is still somewhat open. Assessment of training needs, development of national training standards that reflect program requirements, and the relative training roles of Excise Headquarters, the Regions and the Department's College remain a subject for post-launch debate. But the Regions are still doing most of their own training.

Accommodations

The accommodations program was one of the largest and most complex components of the GST launch.

The requirement: within 12 to 18 months (and in phase with staff buildup), to acquire and outfit 56 permanent Regional and District offices to house about 4,500 people,[19] a Headquarters building in Ottawa to house about 800 people, and an interim tax return processing centre to handle millions of pieces of mail per year. Moreover, because facilities were often needed before permanent premises were completed, no fewer than 36 temporary "swing space"

19 Because of the explosive, across-the-board growth in staff numbers, Excise's pre-GST accommodations were totally inadequate and had to be replaced.

sites had to be acquired at various times and places across the country. Each of these called for all the planning and management activities needed to outfit the permanent sites.

The players were many. Excise (particularly each and every Excise Region), needed the facilities, and was the "client". The GST Field Operations Directorate was responsible within Excise for making sure the Regions' needs were met. The Department's Corporate Management Branch (Capital Assets Program Directorate) normally handled facilities management and acquisition. Systems Planning and Development had to ensure that wiring, data communications and other systems requirements, which were integral to every installation, were met.

Absolutely crucial roles were played in the accommodations program by two other departments. Both of these are credited by Customs and Excise for their whole-hearted support.

One was Public Works Canada (PWC). As noted earlier, PWC is the government's landlord. Its GST role was to buy or lease all of the buildings (permanent and swing space) that Excise required. This meant, incidentally, that PWC (in careful coordination with Excise) needed to approach Treasury Board for its own very substantial GST funding.[20]

The other key accommodations partner was Supply and Services Canada (SSC). Furniture and equipment purchases for GST offices amounted to over $31 million during the project phase. And these purchases and deliveries had to be carefully scheduled and coordinated among Field Operations, Regional offices, District offices, Public Works,

20 As might normally be expected, PWC (and not Excise) bore most of the usual lobbying and political pressures associated with the choice of office sites. However, local Excise managers sometimes had to be visible (even if they were not always comfortable) in the public ceremonies that often accompanied the opening of new offices.

and, of course, the suppliers. SSC carried the heavy and urgent burden of tendering and contracting for these purchases, and did so most successfully.

Within Customs and Excise, Corporate Management Branch was the accommodations focal point. The Branch set up its own separate GST task force, or "Special Project Unit (SPU)". This group numbered about 80 people at the height of the project. SPU integrated several functions (property acquisition, telecommunications, and furniture and equipment acquisition) that were normally handled in separate groups within Corporate Management.

Excise GST Facilities Purchases*
(to March 1, 1991)

Furniture	$16.44 million
Screens	9.56
Shelving	2.49
Office equipment	2.77
Total	**$31.26 million**

* Excluding systems equipment.

Integration was also the key concept in defining and meeting the accommodations requirements. From the beginning, SPU worked with the Excise client (following the Blue Book/Red Book call for a standard office design) to develop specifications[21] for a "packaged office environment". Integrated furniture-and-screen systems were the basic building blocks;

21 In developing the specifications, SPU carried out a staff survey to determine what features were most important in creating a comfortable and productive working environment. The result, at least to this observer, is an attractive and practical office setup that combines good lighting, spacious work surfaces and (in particular) sturdy and comfortable chairs.

these, in turn, were designed to mesh with systems hardware through such features as plug-in wiring systems within the office screen assemblies.

The integrated office concept was given a "trial run" in the new Excise Headquarters in Ottawa (actually, the city of Vanier) in the spring of 1990. The results were well received, and the concept was then used in the rest of the Excise/GST organization.

As part of the approach, the same furniture, the same screens, even the same colour schemes, were used in every installation. The result is that all Excise/GST offices anywhere in Canada look almost identical.

Ready for work: a GST office.

This standardization offered very real advantages during the frenzied days of trying to bring so many offices into physical being in such a short period of time. In particular, the identical fittings facilitated centralized "bulk-buy" contracts from a single supplier. This helped save money through volume-purchase discounts. Probably of more importance to the launch, though, was that it allowed maximum flexibility in getting offices up and running.

This flexibility came from being able to escape the usual necessity of exactly meshing lead-times for furniture production, property availability, and fine details of floor layout. Most of the furniture and fittings (typically about 80%) for any given office could be ordered well in advance of site availability; this could be installed as soon as physically possible, and the rest (the "fine tuning") put in place afterwards. Thus, offices became operational, even if they were not finished to the final degree.[22] Moreover, this final degree could be reached more quickly because some of the furniture (since it was standardized) could be centrally warehoused for eventual installation when and where it was needed.[23]

The final results are impressive. By GST start-up, in a time frame roughly one-third that of most large facilities projects, 43 (out of 56) permanent Regional and District sites, a new Headquarters building, and the IPC were completed.[24] More than 4000 employees had been housed in state-of-the-art, ergonomically designed, information-technology-wired offices. And Public Works is using the GST Headquarters experience as a model in an imminent video on designing a productive working environment.

This does not mean that there were no problems. Mixed ownership marked the accommodations project from the beginning. In some ways, the GST Field Operations Directorate and the corporate SPU group had the same mandate: to make sure the Regions got the needed facilities.

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22 The head of the SPU notes that a certain amount of aggravation might have been avoided if the Regions had been told more clearly what the process was. Staff moving into new quarters were sometimes irritated at the bits and pieces that were missing, or that still needed to be done. They did not always realize that the idea was to get the basics in place, and to carry out the "fine tuning" afterwards.

23 It also meant that some furniture could be warehoused from the project phase to meet fine-tuning needs (as is always the case in a large accommodations project) that have taken a while to become apparent.

24 The remaining sites were well on their way to completion, and the staff that would eventually occupy them were operating out of swing space.

The result, at times, was a certain amount of confusion among Regional staff – and it was in the Regions where most of the activity was happening – as to whom to deal with in Headquarters on what. And accompanying this, of course, were a few unneeded tensions in Ottawa.

The Department worked its way through this using the broad management instruments described earlier. The GST Project Director, Mike Burpee, was particularly active in his day-to-day "integrating" role, and the Deputy's Kitchen Cabinet and stocktaking mechanisms also came into play. As well, the interdepartmental committee structures which helped to make sure that PWC and SSC had their "hands in the bucket of blood" also served as public arenas where Customs and Excise had to have its own act in order.

Recapitulation: Management Issues

The above summaries of the different GST program streams reinforce a number of points that were made earlier.

First of all, the launch may have been Excise's responsibility, but the Branch could not have done it alone. A host of other departments were involved. In some instances (e.g. Taxation's assistance with the original vendor mailing list and in making staff available for secondment), these contributions were intrinsic to setting up the actual tax itself. In areas like staffing, procurement and accommodations, though, GST preparations had significant workload implications for agencies like the Public Service Commission, Supply and Services and Public Works. In general, these interdepartmental relationships worked well, but continuing Customs and Excise attention was crucial to making sure that they **did** work well.

The previous pages in this chapter also emphasize how intrinsic the efforts of other parts of Customs and Excise were to the launch. This was perhaps less the case in developing the actual "tax machinery" (e.g. registration) programs. However, most other project components had very substantial inter-Branch implications.

The bottom line is that it all worked. Internal cooperation was achieved, the project was successful, and the tax was launched on time with minimal visible mishap. But there were problems.

In general, these were due to either unclear or contested boundaries between Excise and corporate units. In some cases, the result was a certain amount of confusion (e.g. on the role of the College in GST training, or about whether the Regions should deal with GST Field Operations or Corporate Management on their accommodations needs). In other cases (e.g. systems), there was a shifting back and forth of relative roles. And in some instances (like staffing, where a "fully-loaded" personnel unit was assigned to Excise, thereby eliminating the inter-Branch boundaries), there were few problems.

All of these circumstances can be expressed in terms of the ownership principle. Where ownership was clear, and where an individual or unit was fully responsible and accountable for getting things done, progress was smooth. When who owned what was unclear or contested, problems, conflicts and delays occurred.

At times, these conflicts were worked out between individuals, either by mutual agreement or as a result of the maneuvering strengths of one or other of the actors. Committees, committees, and more committees, at many levels, painstakingly monitored, coordinated, and worked out how to handle other issues. In the extreme, the Deputy's Kitchen Cabinet and stocktaking sessions made sure that everything was progressing, although few inter-Branch squabbles surfaced with any intensity at that level. And overriding everything was the urgency of the task: this inevitably, at some point, produced a team approach.

A very crucial role was played in all of this by the GST Project Director, Mike Burpee. As we noted earlier, he had full ADM authority for making sure that all the project activities happened as they were supposed to. Much of this job, as it turned out, was to work long and painstakingly with the key individuals across the whole of Customs and Excise to make sure that boundary issues were either resolved or contained.

A last word, though, goes to some of the managers who were interviewed by this author, and who lived through "ownership confusion". They suggest that some of these difficulties might have been avoided if "contracts" or agreements among participating parties had been drawn up, at the beginning of the project, to make it clear and unequivocal as to who had to deliver what to whom, and when.

Recapitulation: The Clean Launch

And now to a key question. How “clean”, really, was the GST launch?

In terms of the three main objectives, we can say the following:

- The key policy and regulations were in place, although at a far later date than Excise plans had assumed.

- Only about 65% of vendors had registered by the launch date. However, most of the rest were not far behind, and Excise was able to handle the registrations as quickly as they came in.

- Excise had established a number of vendor education programs, including widely accessible telephone enquiry services and a comprehensive, readily available array of publications. However, it appeared that many vendors were just getting around to trying to find out about the tax as the launch date grew near.

- Trained Excise staff were in place in operational facilities across the country. The computer system and the tax return processing centre were operational. Most tax administration policies and procedures were designed and ready. However, the degree to which the computer system could handle the “tax machinery” could not be known beforehand, and was (correctly, as it turns out) a source of worry within Excise.

The launch was thus not as “clean” as Customs and Excise had wanted. Indeed, the Department had repeatedly warned anyone within senior government circles who would listen that the launch was going to be somewhat “dirty”. The delay

in the legislation had discouraged vendors from registering. This, coupled with diversions of resources to implement Quebec harmonization, had cut into Excise's leadtime.

But, in practical terms, the launch really was rather smooth. Businesses, particularly retail businesses, turned out to be surprisingly well prepared. Businesses and consumers were more patient and accepting than many in Excise and other government agencies had expected. The result was an outward appearance that the launch had gotten off fairly strongly and cleanly.

Most of the "dirty" aspects were, in fact, internal administrative concerns that were not all that visible outside of Excise. The post-January 1 challenge was to scramble to correct these deficiencies before they became serious problems.

Chapter Six: Managing Change: The New Excise

Introduction

The GST has been the vehicle for massive change in the Excise Branch. In fact, as we have seen, an explicit objective of the GST project was for Excise to actually transform itself into a brand new organization.

Officially, this "new" Excise Branch (now called "Excise/GST") came into being on April 1, 1991. However, much of the organization simply had to be in place before January 1, if the launch were to have any prospects of success. On the other hand, some of the processes to finalize the organization, especially permanent staffing in Headquarters, are still being completed as this document is being written.

In any event, the new Excise is vastly different from its predecessor of just two years ago. The physical changes are relatively easy to describe; some of the deeper GST-induced changes in culture, mindset and relationships may take some time to become clear.

Revised Structure of Excise/GST Branch

ADM

- Policy and Legislation Directorate
- Operations Directorate (including GST Systems)
- Research and Development Directorate
- Management Services Directorate
- Federal-Provincial Relations Directorate
- Consultations and Client Services Directorate
- Interim Processing Centre
- Summerside Processing Centre Planning
- Excise Duty and Legislative Review Directorate
- Human Resources Directorate
- Regional Directors (9)
- Appeals Directorate

The New Excise: The Facts

The GST has brought explosive growth to Excise. For 1989-90, the Branch had an authorized complement of 1,672 person-years. Approved levels for 1991-92 were 5,605 person-years.[1]

Budgetary growth has also been spectacular. Authorized 1991-92 expenditures (which, admittedly, include substantial one-time developmental and implementation costs) amounted to $433.1 million, compared to $89.9 million two years earlier.

1 As well, there are several hundred contract staff working in Systems and the Interim Processing Centre. Further, more than 300 Revenu Québec employees have been seconded to Excise to work on the GST. However, Excise numbers will decline after harmonization, with the transfer of 652 person-years to the Province.

The bulk of the expansion has been in the Regions. In August, 1991, Regional staff levels stood at 3,831, and Headquarters staff at 1,031. This Headquarters figure is somewhat inflated, though, in that it includes about 300 staff at the Interim Processing Centre; most of these jobs will eventually move to Summerside.

Part of the Regional growth has been through the establishment of new District offices. There are still nine Regional offices, but the number of District offices has increased from 27 to 47.

Inevitably, this growth has required a massive change in physical plant, in every Regional and District office and in Headquarters in Ottawa. As we noted in the last chapter, just about every office across the country had to be moved to new and bigger quarters.

And then there are the computers. The GST has brought personal computers to almost every staff member. These are linked to the mainframe computers in Headquarters, and are now the fundamental operational tools for administering the tax.

The other crucial difference in the scale of the Branch's operations has already been mentioned several times. Excise has an awful lot more clients than before. The 75,000 FST licensees in the manufacturing sector have been replaced by about 1.7 million GST registrants in every type of business endeavour imaginable.

The New Excise: What do the Facts Mean?

Size

Excise is no longer the compact organization it was in pre-GST times. This has far-reaching implications for communications processes and management style.

The old Excise, at least to immigrants from elsewhere in the Public Service, seemed amazingly efficient at getting things done without a lot of paperwork. This was due largely to the fact that the management cadre was small, and its members knew and trusted each other. Informal communication, cooperation and task management within this closely-knit network were both possible and reasonably easy.

Person-years by Region
1988-89 and 1992-93

	Utilization (1988-89)	Allocation (1992-93)
Atlantic	73	283
Quebec	81	103*
Montreal	251	192*
Ottawa	70	335
Toronto	342	817
Southwestern Ontario	205	576
Central	106	504
Alberta	117	506
Pacific	156	578
Total Regions	**1,403**	**3,894**
Headquarters	274**	921***
Appeals		208
Total Branch	**1,677**	**5,023**

* Covers federal GST operations until June 30, 1992, when Province becomes responsible for GST administration.

** Includes Appeals.

*** Includes 50 person-years for ongoing federal GST presence in Quebec.

These characteristics were valuable in bringing about the launch. The informality and managerial closeness were part of the trust that was crucial to delegating ownership. They facilitated fast Excise action when emergencies and crises inevitably arose, and they were key ingredients in the tremendous flexibility that the Branch showed (and that it needed) during the project.

However, it is unlikely that this informality can continue. The numbers of staff (many of them new to the Excise family), the larger span of control of many managers, and the sheer scale of physical and financial resources involved, will inevitably require more formal managerial machinery.

In this context, there will likely be a need for improved standardization of practices across the organization. For example, the author's Regional interviews suggest that standards for employee performance appraisals have historically varied somewhat from Region to Region. However, staff do not seem to have suffered from this, since the informal verbal communications networks among managers allowed competent promotion judgements to be made. This will be a lot harder with so many people (and so many them new) in the organization, and with so many new managers who really do not know each other very well.[2]

The larger organization will also require different management skills and styles. Managers in the Regions already feel that they are unable to get involved in the **substance** of the tax the way they used to. They are – and expect to be – too busy with the job of actually managing the people and resources under their control.

Indeed, some of these managers seem to have a sense of vulnerability that would never have arisen under the old tax. In the "old Excise", senior managers had usually worked their way up in the organization. In effect, they "cut their teeth" on the FST, and invariably developed a very solid technical grasp of the tax. However, under the GST, the real technical expertise is being developed at the working level. Managers have had to focus on setting up the new organization, facilities and programs. To some extent,

2 One Regional Director's comment to the author about the new organization was that, "You can't tell a thing now by a person's group and level, but Headquarters doesn't know that yet".

they have been left technically behind. Over time, this will tend to correct itself, as working-level staff move into the management ranks. However, the point remains that, by virtue of sheer size, the new Excise will have to put a greater emphasis on **managerial** training and excellence (as opposed to technical taxation expertise) than it has in the past. Managers will be more managers than tax administrators.

Technology

One of the Auditor General's pre-GST criticisms of Excise has certainly been swept away. The Branch is no longer lagging in terms of automation. It has taken deliberate advantage of the project to bring computer technology to its staff on a very wide scale.[3]

Not that there were that many alternatives. Clearly, large-scale computerization was the only practical answer to implementing the tax in the time frame involved and with the staff numbers that were authorized. However, the introduction of the technology is not without its cultural and managerial consequences.

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3 The audit laptop initiative would make a fascinating case study on the introduction of a new technology. As part of the systems project, more than 2,200 portable laptop computers were acquired for the audit program. All GST auditors have laptops, which they take with them on their company visits. The laptops can upload and download their contents to and from the mainframe computers in Ottawa. The auditor can download his or her laptop with all the information needed for a specific case. This includes generic material (e.g. texts of manuals, the legislation and regulations), and company-specific account information. The auditor also does his or her report on the laptop for uploading to the mainframe. This initiative puts Excise in the innovative forefront within the international tax community. It offers major opportunities to improve auditors' productivity, and makes for better management control of the audit workload. But there have been interesting side concerns. Some older (or, more correctly, less computer-inclined) auditors have not been totally happy at **having to** use the laptops. Some find full-time use of the small laptop screen a bit of a strain, and want more office access to larger desktops. And with so many laptops being lugged to and from so many places by so many people, there have inevitably (at least in hindsight) been a few minor problems, like the odd case of employee back strain and equipment theft from employee vehicles.

The New Excise: high-volume GST mail-outs from the IPC.

Excise's tax administrators are now at the mercy of the computer system. If the system software cannot process GST returns, if it cannot correlate registrants' elections with their tax return information, or if it cannot keep track of how much each registrant owes, Excise is essentially paralyzed.

And, for both Headquarters and field staff, these uncertainties may even have grown a bit since the launch. As we noted earlier, the most fragile aspects of the launch have been the systems concerns.

This has caused a certain sense of unease among at least some of the Branch's tax professionals. No matter how well designed their technical programs, and no matter how enthusiastic they are about delivering a well-run tax, much of the control is seen to rest with the systems people. These people speak a different language and they do not speak taxation.[4]

This sense of "separation" from the technology is perhaps even greater in the field. The system is essentially a Headquarters creature, and the "loss of control" phenomenon is magnified by the field's relative isolation from the systems development process.[5]

How to cope with this, and with the related ownership ambiguities discussed earlier, is a significant post-launch concern. Initially, the new Excise was to continue to have a large and separate GST Systems Directorate. However, the Branch's systems effort has instead been combined with the "real tax units" in Operations Directorate. The result should hopefully be the more effective integration of systems and tax thinking, and a more unified and productive relationship between Excise and the new Information Technologies Branch. As well, efforts are being made to directly involve field staff in the early testing of new system developments.

In any event, automating the Branch on such a grand scale in such a short period of time has involved difficulties beyond the usual systems shakedown problems. Not

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4 In fact, during the hectic days of mid-1990, one Program Development Director was heard to grumble that "the GST is not really a tax program: it's a *&%!#@ computer program!".

5 One Regional Director confided to the author that he became worried when it was decided that the mainframe computer planned for the GST system would not be sufficient, and that a second one was needed. Could this mean that the systems people really did not have a handle on what they were doing?

surprisingly, some managers say that they wish they had been better prepared, at the beginning of the project, to understand the implications of introducing the technology.

The Headquarters-Regions-Districts triangle

In terms of numbers, the Excise centre of gravity has shifted decisively towards the field. The result will be a drastically altered set of Headquarters-Regions-Districts relationships.

Excise staff would probably argue, depending on where they sit, as to how much autonomy the Regions used to have. But there is no question that the Regions did have a lot of independence during the project. As a result of this and the sheer size of the expanded field complement, one senior Headquarters Director General predicts that "Headquarters staff will find it very difficult if they try to run the Regions like they did in the old days".

One area, in particular, where the Regions have essentially seized control (although more from the Department than from Excise Headquarters) is training. As indicated earlier, there was at least some Regional (and Auditor General) discontent about the relevance and timeliness of FST training. The launch experience, when there was no choice but to have Regional GST training delivery, is probably irreversible. But there remains a lively concern that GST training has to be planned and delivered against **national** standards, and the relative roles of Excise Headquarters, the Regions and the Department's College still needs to be resolved.

But if the weight in the Branch has shifted from the Headquarters to the Regions, the balance between the Regional offices and the District offices they administer has shifted almost beyond recognition.

Excise/GST Regional and District Offices

Atlantic Regional Office:	Dartmouth
Districts:	Halifax[1]
	Moncton
	Saint John
	Charlottetown[1]
	St. John's
Quebec Regional Office:	Quebec City
Districts:	Quebec City
	Sherbrooke
	Trois-Rivières
	Jonquière[1]
	Rimouski[1]
Montreal Regional Office:	Montreal
Districts:	Montreal West
	Montreal East
	Brossard
	Laval[1]
	Rouyn-Noranda[1]
Ottawa Regional Office:	Ottawa
Districts:	Ottawa
	North Bay
	Kingston
	Sudbury[1,2]
	Sault Ste. Marie[1,2]
	Kirkland Lake[1,2]
Toronto Regional Office:	Toronto
Districts:	Toronto
	North York[1]
	Scarborough
	Mississauga
SW Ont. Regional Office:	London
Districts:	London
	Barrie
	Hamilton
	St. Catharines
	Waterloo
	Windsor
Central Regional Office:	Winnipeg
Districts:	Winnipeg[1]
	Brandon[1]
	Thunder Bay
	Regina
	Saskatoon
Alberta Regional Office:	Calgary
Districts:	Calgary
	Edmonton
	Lethbridge[1]
	Red Deer[1]
	Yellowknife[1,2]
Pacific Regional Office:	Burnaby
Districts:	Burnaby
	Vancouver[1]
	Victoria
	Kelowna[1]
	Prince George[1]
	Whitehorse[1,2]

[1] Denotes new District or Sub-District established as a result of GST.

[2] Denotes Sub-District

The District office is now the front line. This is an inevitable fall-out of the much more pervasive nature of the GST: 1.7 million registrants, most of them relatively unsophisticated small business owners, will clearly require more direct and immediate access to information and other

account services than the Branch's FST clientele ever did. It is the "local Excise office" where most registrants will interface with the Branch, and it is those offices which will determine the day-to-day success of implementation.

We will discuss in more detail later how Excise is now striving to clarify the roles, responsibilities and requirements of the Districts – and of the rest of the organization.

The new clientele

As we keep observing, the GST brings a spectacular change in the Branch's clientele. The GST registrant base is more than twenty times as large as the FST population. Moreover, the vast proportion of the more than 1.6 million **new** clients do not have the business sophistication or the tax accounting capabilities that most FST licensees had.

For Excise, this is a whole new world. The day-to-day relationships with FST clients, built up over decades, were about as easy and familiar as a taxation program can allow. Excise officers knew their clients and the businesses the clients were in.[6] And the clients and the professional tax community apparently respected the Branch for its even-handed competence.

Now, most of the Branch does **not** know its clients. It has not really had time to develop a feel for the specific GST problems and concerns of registrants as diverse as taxi drivers, bankers and travel agents. By and large, Excise is not used to dealing with people who do not have a reasonable understanding of the tax that the Branch is

6 One person interviewed during this study characterized the FST relationship (with no criticism intended or implied) as being almost "taxation by hand-shake".

administering. Because of the numbers involved, Excise officers will never **personally** know more than a small fraction of individual registrants.[7]

This has implications both for the clients and the Branch.

For the registrants, there is a danger (enhanced by the automation of most of the tax processes) that administration of the GST will be both highly impersonal and poorly attuned to their business realities. On the former point, vendors probably have few other expectations anyway; on the latter, the tax may turn out to be more painful than it need be. Neither perspective would seem to help prospects for voluntary compliance.

As for the Branch, its self-image may be threatened. It has long had a lot of collective pride in its administrative efficiency **and** in its efforts to be fair and even-handed with its clients. Many Excise staff, particularly the longer-serving ones, would be quite disturbed – if the realities of the new client base are not addressed – to be seen as uncaring, unhelpful or elitist.

Other changes

There are a number of other GST-induced changes which could have a lasting influence on the Branch's corporate culture.

For one thing, the Branch had to develop new "activist" skills during the project. As suggested earlier, Excise has generally stuck to its own administrative knitting in the past, and has not often been involved in the bruising interdepartmental arena in which controversial issues are usually played out.

7 If every Excise employee, including secretaries, clerks, computer programmers, and the ADM himself, personally handled GST accounts, each one would be responsible, on average, for about 350 clients.

This has changed. The ADM, the GST Project Director and other senior managers have gained new experience and new confidence in interdepartmental politics. They have been reinforced here by some of the new Headquarters recruits from other departments, who are quite at home with the stick-handling necessary to move an agenda within the bureaucracy.

Whether Excise chooses to exercise these talents, or whether it will tend to retreat to its more traditional role, remains to be seen. In a sense, the GST start-up involved a rather unique set of pressures and requirements. However, it could be argued that one of the Branch's problems during the project (i.e. the tendency, in Excise eyes anyway, for Finance to ignore the administrative implications of its policy decisions), may have been partly due to Excise's historical passivity. There will inevitably be major and continuing reviews of the GST legislation as the tax matures, and a more aggressive use of its new skills could possibly help Excise to influence the policy process towards administratively more acceptable outcomes.

It is also worth noting that "outsiders" now greatly outnumber pre-GST Excise staff. Many of these new staff were entry-level recruits from outside the government, and probably do not pose a challenge to the Branch's values and ways of doing things. However, many come from elsewhere in the public service: they do not have a long-standing pride in the Branch; they do not have the easy networks of personal contacts, and the same loyalties to "old-hand" senior managers; they do not necessarily accept "the way we do things around here".

One interesting aspect of this has to do with the philosophy of administering the tax. Longer-serving Excise personnel often profess to see a difference in approach between themselves and their counterparts in Taxation. This view has it that Excise maximizes the **service** aspects in collecting taxes, whereas Taxation, quite bluntly, **collects**

taxes as efficiently as possible. Since many of the new recruits to Excise have come from Taxation, the Branch's "administrative culture" may see some interesting evolution.

This has both its positive and negative aspects. On the one hand, the new tax and the new organization need the skills which the new staff can bring to bear. Moreover, the injection of new blood can add intellectual and social vitality to an organization that some saw as rather staid, traditional and paternalistic.

On the other hand, the original Excise "family" had its real strengths. It was hard-working, very efficient in tackling both large and small tasks, and was marked by strong loyalties. Excise personnel were proud of their organization and of their own professional and administrative capabilities.

The New Excise: laptop computer training for GST auditors.

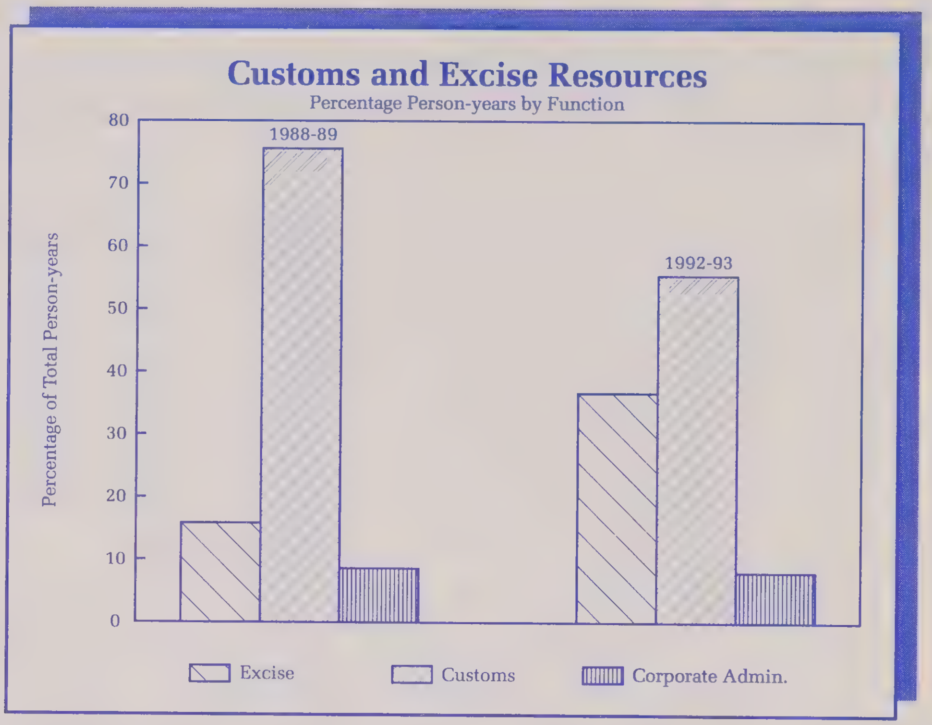
Now the original family members are outnumbered, and some wonder whether these strengths, these abiding values nurtured over many years of stability, will last. Indeed, it is the author's own observation that, during the start-up

project, at least some working-level Excise veterans seemed to feel a bit bewildered, and perhaps even threatened, at being surrounded by so many new colleagues.

But there is a unifying factor, something that can really be built upon in solidifying the new organization. There was a genuine, pervasive enthusiasm for the GST task, and there is a very visible pride in what was accomplished. In the words of the Deputy Minister, "We were ready on January 1, when it ought not to have been possible to be ready". That pride is shared by everyone in the newly extended Excise family, wherever they came from.

That pride is part of another change. Within the Department, Excise has historically been a sort of "junior partner" to Customs. Excise has been much the smaller in size. Moreover, Customs has been far more visible. Every Canadian who has crossed the border has met a Customs officer; few have met Excise officials who were carrying out their duties. Moreover, the "stuff" of Customs, whether in the form of smuggling stories from the prohibition era, or as part of our recurring free trade debates, is much more a part of the public consciousness than excise duties or the FST.

The GST has changed this. Excise has accomplished a huge, important task. It is much bigger; it has sparkling new, well-appointed facilities across the country; technologically (as one systems manager has suggested), it has moved from the nineteenth century to the twenty-first. And the "junior partner" mentality has gone.



From the Old Excise to the New: Managing the Transition

And how has Excise handled these changes? Has the Branch been on top of things? Has it "managed" the process of change, or has it been hanging on for the ride, to who knows where? The answer is mixed.

The "easy things"

Many of the changes we have been talking about were deliberate. They were part of the GST project.

Most of the discussion in Chapters Four and Five was not just about how Excise managed putting a tax in place, but also about how it purposefully changed itself to accommodate the GST's requirements. The Blue Book and Red Book clearly, consciously and deliberately laid out plans for expanding staff complement, accommodations, facilities, and systems. The Project Team turned these plans into reality.

In general, Excise did these things well. It really planned, controlled and implemented – in other words, managed – the change process. If it hadn't, the launch would have been much "dirtier", and might not even have happened at all.

But what we are talking about here are the **explicit** elements of the project. Hiring thousands of people and finding accommodation for them is a **task**; procuring laptop computers for every GST auditor is a **task**; pumping out massive quantities of publications is a **task**. Excise has always been good at tasks, and the GST launch proved this in spades.

But other aspects of change were not so easy.

Managing relationships: the change in the Excise culture

Senior Excise officials like the ADM and the Project Director concede that the Branch was not nearly as on top of the more difficult issues of values and relationships that underlay the project "tasks". The organization is now striving mightily to make up for this.

This does not mean that Excise was totally oblivious as to how change affects people, and to the advantages that change can bring. For example:

- as we noted, FST personnel staying behind to close down the old tax were assured that their careers were not threatened; indeed, FST managers retained a specialized "change consultant" to help them identify and address staff worries;

- in fitting up the new accommodations, Excise took very deliberate advantage of the GST opportunity to provide much more comfortable and modern working spaces than Excise staff were used to;

- by putting so much stress on the ownership principle, the Branch demonstrated a keen sense of how to encourage loyalty, hard work and commitment.

However, as 1990 progressed, senior Branch management gradually became uneasy.

For one thing, it was starting to become obvious that insufficient planning emphasis had been given to the **support infrastructure** for both the project and the new Excise. The focus had been on **program needs** for registration, collections, audit and so on. Not enough attention had been given to things like maintenance costs, the need for payclerks and other support staff, communications upkeep, filing space requirements, security needs and the like.[8]

But, to a considerable extent, these concerns represented a growing awareness that the qualitative aspects of the changes could pose more significant managerial challenges than just simply having to scale up managerial thinking to deal with more resources. As well, there was a growing sense that some staff were becoming more uneasy (primarily in Headquarters, where permanent staffing is still being sorted out) about where they would fit in the final organization.

Finally, there was the possibility of "post-project let-down". The entire organization was on a two-year "high". Managers and staff had worked with incredible motivation to get the tax off the ground. As part of the process, many people at all levels were given degrees of responsibility and

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8 One illustration of this type of planning lapse has to do with accommodations in Headquarters. Headquarters space was acquired on the basis of the number of staff approved for operation of the mature tax in 1993. This did not reflect the actual numbers of people required to launch the tax (including large numbers of full-time consultants in systems and other areas). As a result, there has been constant disruptive scrambling (and frequent moves) to find space to put people.

decision-making freedom that were both challenging and exhilarating. It may not be possible to sustain this for long, now that the project mode is over.

And Branch management has now recognized, seriously recognized, that the organization is different. More importantly, it has recognized that if it wants to influence the directions and impact of the change process, and if it wants to preserve what should be preserved of the "old-time" values, it had better get its managerial act together. The result is a far-reaching process that continues as of this writing.

The first step was an "environmental scan". This study, carried out by a management consultant, was completed in November, 1990. It examined how the GST-induced changes in Excise affect:

- the "identity" of the Branch;
- the formal structure, reporting relationships, decision-making processes, planning, relationships with taxpayers, and other existing management systems;
- management style and other ways of behaving that are part of the existing Excise culture.

The environmental scan was largely based on interviews with almost 200 managers and staff throughout the Branch. The report stressed that Excise had done a very good job in preparing for the tax, and emphasized that it was not a "sick organization". However, the author suggested that Excise had not yet fully addressed many of "the fundamental shifts in the focus and methods" that the organization needed. The report offered 34 recommendations on these fundamental shifts.

What the Branch has since done with the study is probably far more important than what the study actually contained. Excise has begun a thorough self-examination – but from the ground up, rather than the top down.

During the summer of 1991, teams were established in every Region to begin developing "a front-line view of how the organization can best serve its clientele." The shorthand description of the exercise is "improving the way we conduct business". The environmental scan was the starting point. The key issues under review are indicated in the following table.

The New Excise: Key Questions in Improving the Way We Conduct Business

- What is the best way to respond to client needs?
- What is the role of District offices in the optimum delivery of customer services?
- What are the role and needs of District managers?
- What types of support do Districts need from Headquarters and Regions in order to deliver customer services?
- What training is required to meet technical, managerial and client-service needs?
- What are the indicators of whether or not we are doing a good job?

But the important fact is that it is a grassroots process. The exercise is being coordinated from Headquarters, but the field teams "own" their efforts. They were charged, not just with canvassing their local Regional and District colleagues, but with **engaging** them in developing new ideas and approaches. And how the teams engaged their colleagues (whether by surveys, committees, newsletters, etc.) was up to them.

The result has been a flood of ideas. As this report is being written, these are being brought together as a coherent Branch-wide package. But, and this is a very important "but", many recommendations are for "local initiatives". And the field had been told that there is no reason to delay these. District offices can go ahead and implement their ideas for local improvement, without having to wait for formal approval from the Regional offices. Similarly, there are various initiatives at the Regional office level that do not need the okay from Headquarters.

It is too early to say where all of this will lead. But a number of points are clear.

The process reflects the key realities of the GST. The Branch is facing multitudes of clients that it doesn't know, and who do not know the Branch. The emphasis is on getting to know these clients and on providing good service to them.[9] And this can only happen in the field, and more precisely, in the District offices.[10]

In other words, the "improving how we conduct business" exercise recognizes the new primacy of the Districts. And the day-to-day role of the Regional offices is in for some very fundamental clarification.

And Headquarters has not escaped. The various Headquarters Directorates are now going through similar exercises of their own. But these are happening **after** the results of the field process are known. More importantly

9 Indeed, as part of the "improving-the-way-we-conduct-business" exercise, field teams sought feedback from client groups on service needs and expectations.

10 The Branch does have two units that have a particular focus on improving services to clients. One is the Small Business Division within Operations Directorate. The other is the Client Services Division, which is part of the Consultations Directorate. Both of these units are in Headquarters, but are working with the Regions and through Regional staff to try to identify and solve client problems and concerns.

perhaps, "improving how we conduct business" in Headquarters is conditioned by the basic assumption that the field is the client of Headquarters. Again, the fundamental relationships are being questioned.

But perhaps the most important issue underlying the process we have just described is that it recognizes two things about Excise values. It recognizes that, in the GST-expanded organization, there was no longer automatic acceptance of what Excise stood for, of "how we do things around here". The process also recognizes that the only way that the Branch could redevelop a shared set of values, new or old, was by a participatory process at the grassroots level.

The trick now is to follow through. One thing the process has now unleashed is expectations from below. In the past, the Branch has operated much more on expectations from above. The genie of change is now really out of the bottle.

The Biggest Change of All?

But the longer term could hold even more fundamental changes. Harmonization of provincial sales taxes with the GST could be the vehicle.

Harmonization has gone the farthest in Quebec, although the target date for the new sales tax structure has been changed from January 1, 1992, to July 1, 1992. The crucial organizational issue here is that both the GST and the new Quebec sales tax will be administered by the provincial government. What this means to regional Excise employees (as we discussed earlier) is that they will no longer be regional Excise employees: they will become provincial civil servants.

But other harmonization efforts suggest that even greater adjustments may eventually come over the horizon. For a time, Excise put substantial efforts into setting up a new tax regime in Saskatchewan. There, the intent was to have both the GST and a GST-harmonized provincial sales tax administered by Excise. The Province, after a recent change in government, has decided not to proceed any further.

However, one feature of the Saskatchewan initiative had been a planned study on the possibility of eventually having the taxes administered by a commission (an "independent body") at arm's length from government. This idea may have been shelved for the moment, but further harmonization efforts seem inevitable. If these resurrect the concept of an arm's-length agency, the Excise Branch's long history may take a very different turn.

The New Excise: Some Final Comments

Clearly, it is far too early to speculate on what Excise will be like after all the GST dust has settled. Some of the physical changes are still occurring, and the filling of permanent positions in Headquarters has still to be completed. As for the inevitable changes in management style and practices, and the more subtle but crucial evolution in the values and attitudes of Branch staff, these are longer-term GST effects that can only be speculated on at the moment.

In many ways, Excise has grabbed the opportunity offered by the GST to modernize itself. The sparkling new accommodations and the computer system are indicators of this, as is the Branch's more forceful and direct role in the training of its own staff.

However, the organization was perhaps been a bit slow in addressing some of the more subtle underlying human and cultural change issues. Indeed, the major regret expressed by both the ADM and the Project Director, when asked what they would like to do over again if they had the chance, is summed up in the following words: “We should have given equal attention to the impact of organizational change from day one”.

And there is at least some agreement with this sentiment at lower managerial levels. As one of the Project Team Directors has noted: “It would have been good to have had training in the management of change”.

But the Branch is adjusting. The environmental scan and subsequent “improving-the-way-we-conduct-business” exercise has brought an intense Branch-wide focus to the change process. But it has also unleashed a whole new set of forces and expectations. The GST may have been launched, but Excise management may still have a tiger by the tail.

Chapter Seven: Conclusions: How Did We Do It? How Did We Really Do It?

Introduction: The Clean Launch Accomplished??

It is now just over a year since GST was first charged on that cab ride home from the New Year's Eve party. That first dollar or two of GST collected has been followed by billions more, and the tax is well on its way to becoming, if not popular, at least accepted as a fact of life by most Canadians.

Revenue Canada Customs and Excise, with the Excise Branch in the driver's seat, had got the tax up and running on time. The challenge of a "clean launch" for the tax had been immense. Excise, a closely knit, staid and professionally proud organization, had been suddenly thrust into the limelight with a "do or die" job to:

- develop from scratch all of the processes and procedures to register 1.7 million businesses, collect the tax from these businesses, provide various rebates (including a one-time rebate of the now discarded Federal Sales Tax), verify the accuracy of tax returns, chase reluctant taxpayers, and prosecute fraud and non-payment;

- design and acquire all of the necessary physical facilities, including dozens of new offices across the country, and a state-of-the-art tax return processing centre capable of sending out 9 million document packages and handling more than 10 million incoming documents per year;

- develop, acquire and program an integrated computer system that would fully automate all phases of GST administration, and link more than 5,000 staff members across the country on a real-time basis;

- educate the 1.7 million registrants about the GST so that they will collect it fairly from their customers and remit it correctly to the government;

- hire, train and house the three-fold expansion of staff necessary to run the new tax on a permanent basis;

- establish the new organizational structures needed to do all of the above, and to cope with the accompanying growing pains and cultural changes;

- do all of this in less than two years, in an environment of intense political pressure, public opposition and unwavering interdepartmental scrutiny, and when the needed twelve months of legislative certainty was reduced to a mere two weeks.

Excise succeeded. Not on its own – a massive coordinated effort was needed, involving many other parts of Customs and Excise and a host of other government departments. Not completely and finally – the inevitable bugs are still being worked out of systems and procedures; the new organization is still being put in place; the new organizational culture and internal working relationships are still developing. But the job was done.

But was it really the "clean launch" that everybody had worked so hard for? From the outside, the answer is probably "yes". The tax was up and running by the appointed hour. Most retail businesses turned out to be reasonably well prepared. Businesses and consumers were

more patient with the tax than many observers had expected. And the occasional Excise inefficiencies have not turned into major foul-ups or administrative paralysis.

From the inside, though, the reviews are more mixed. The Branch and the Department are justifiably very proud of what they have accomplished. But they, more than anyone, know that the launch was "dirtier" than they had wanted it to be.

Having only two weeks between Royal Assent for the legislation and the actual start-up was not without consequence. Many businesses delayed registering until the very last minute. Resources had to be diverted from other program areas, to their detriment, to cope with late registration and a deluge of last-minute information enquiries. More significantly, the necessary automation of much of Excise's "tax machinery" has suffered, and is still suffering. This is due to a combination of factors: the lack of time to pilot-test the system; the lateness of some of the policy decisions; the diversion of systems personnel and program staff to prepare for the unexpected sales tax harmonization initiatives with Quebec and Saskatchewan.

But, yes, for all practical purposes, the GST did have a **fairly clean** launch. And Customs and Excise really can claim credit for successfully meeting a public service management challenge of almost epic proportions.

There are lessons to be passed on from this success. The following pages offer a list of the critical things that Excise feels it has done well (and in some cases, would do differently if it had another chance) in getting the GST off the ground.

But who would be interested in these lessons? After all, few other public service managers will ever have anything to do with tax administration. But the clean launch is more than just a story about tax administration; it is a story that could prove instructive to any manager charged with:

- implementing a highly visible government initiative accompanied by intense political pressure and strong public opposition;

- successfully completing a very large project within a tight and inescapable deadline;

- rapidly and drastically expanding a small, closely-knit organization;

- developing a major computer system to automate a new program, at the same time the program is being developed, and in an organization with little systems experience;

- urgently acquiring and outfitting an array of new offices and facilities across the country;

- designing a major new program within a centralized headquarters organization, when the program will be delivered by highly independent regional offices;

- ensuring the readiness of the clients (many of them reluctant) on whom the program's success depends;

- coordinating the active cooperation of several other departments (including some that have to organize their own regional operations), whose help is crucial to project success;

- carrying out a substantial and technically complex program development process at the same time (and in some respects before!!) basic policy is still being written.

Lessons From The Clean Launch

Lesson 1: Plan, plan, plan. Plan early and plan continuously.

Absolutely crucial to the success of the project was the emphasis that Excise placed on early and detailed planning.

The Blue Book was critical. It laid out the elements of the GST task, for five years into the future, in enough detail that functional managers could hit the ground running as soon as the tax got the go-ahead. The plan was prepared by a multi-departmental team led by Excise. Its development cemented Excise's GST credentials within an initially sceptical interdepartmental community. The Blue Book process also usefully engaged other parts of Customs and Excise, and certain other key departments, in the GST project. This was an initial blueprint, and it was a good one.

The subsequent Red Book provided the basic GST implementation plan for the Excise Regions, where most GST operations will actually occur. Having been drafted by Regional Directors, it perhaps had a credibility in the field that would not have been the case with a Headquarters author. In any event, the Red Book indicated what would be expected of the Regions for the following year and a half. However, it left many of the modalities, the how-to-do-it decisions, to local initiative. By and large, this worked well, although some field managers would have welcomed more detailed instructions.

Real detail was provided by the Master Plan. This was the Headquarters monitoring and control mechanism that broke the GST project into more than 2,000 separate activities and deliverables. On a day-to-day basis, many managers charged with setting up the GST machinery found the reporting requirements of the plan to be a nuisance. However, it did provide a comforting and continuing overview for the Minister and senior management, and it was particularly helpful in identifying how progress in one area or activity often depended on what was happening in some of the other 2000 activities.

Taken collectively, these planning processes gave the Department's senior management a common conceptual framework for the project. They provided direction; they made the project assumptions clear; they specified time frames. This was crucial in the prevailing environment.

Two aspects of that environment are worth noting here. The first is the deadline. January 1, 1991, was the inescapable date when Excise had to be ready. It didn't matter what problems, difficulties, or surprises arose: there was no way around January 1. But as tight and as tough as this timetable was, its immutability was a critical staff motivator, a goad to creativity, and a standard for measuring whether progress was real or not.

The deadline represents another more general aspect of the GST environment. Excise had to "deliver the tax", administratively speaking, but it did not control the agenda. The deadline, the tortured passage of the Bill through Parliament, the policy content of the legislation, the decisions to harmonize the Quebec and Saskatchewan provincial sales taxes with the GST – these and other "external" developments had crucial and severely complicating impacts on what Excise had to do.

But the Branch's careful early planning had identified what was absolutely essential to the GST launch. Non-essential, though perhaps worthwhile ideas (e.g. a common GST/Taxation/Customs client identifier; a better size balance among Excise Regions) were recognized for what they would become: GST distractions.

And having identified the essentials, Excise made a virtue of contingency planning to make sure that it could deliver on those essentials. Alternative delivery paths were systematically and continuously examined, especially when the clean launch goal was threatened by external conditions, events or unpleasant surprises (e.g. a court challenge that threatened to scuttle plans for the tax return processing centre). And every effort was made to anticipate problems, for example, by periodically having outside experts assess risks, prospects and even Excise performance to date. The result was tremendous flexibility and responsiveness.

One of the most important aspects of Excise's planning was that the stakeholders, the functional managers charged with delivering what was being planned, actively helped to build the plans. Regardless of how many deviations from the plans there eventually were, this participative process really cemented goals and objectives, and emphasized managers' ownership of their tasks.

But plans are not of much use if progress toward them is not continuously assessed. The Master Plan facilitated some of this day-to-day assessment. But hands-on managerial review is a must. At the most senior levels, this was provided by weekly meetings of the Deputy Minister's inter-Branch "Kitchen Cabinet". As well, periodic "stocktaking" sessions, chaired by the Deputy, tried to assess how the project was **really** going and to develop any necessary corrective actions.

Corollary 1: Think of what you control and what you don't. Make sure your plan identifies what you absolutely have to do, and that it recognizes the aspects of the agenda that are not under your control.

Corollary 2: Reduce the risk of failure: develop contingency plans. Scan the environment, anticipate events (especially those you can't control), assess risks – and keep thinking of alternative ways to deliver the essentials, should disaster strike or someone else change the agenda.

Corollary 3: Involve your functional managers in developing plans, and force them to identify what they are counting on from other units and when.

Corollary 4: Periodically step back and honestly review progress against plans. That is what they are really for.

Corollary 5: Despite Corollary 4, reporting requirements against plans should not be so onerous that they get in the way of getting the work done. Make sure that reports are practical and that they give a real sense of progress or lack thereof.

Corollary 6: Ministers, senior management, the media, after-the-fact auditors, and others that you do not expect, will want analyses, reports, statistics, and more statistics. Planning includes establishing a good management information system, **and** leaving a clear decision trail behind you.

Lesson 2: Try the project management approach. It works.

Excise managed the GST launch as a self-contained, discrete project. A dedicated Project Team was established in Headquarters to focus on the GST, the GST, and nothing but the GST.

The Project Team brought together under direct Excise control (and mostly under one roof, instead of the four buildings that Headquarters had previously occupied) as many of the necessary functions and capabilities as possible. This allowed Excise to sharply focus its resources on GST development (while still permitting it to administer the FST and excise duties without major disruption).

But the Project Team would not have worked without certain other adjustments. It needed the undivided and undistracted attentions of the Departments's senior management. At the very top, the Department's Deputy Minister delegated as many of her non-GST duties as she could to her Branch heads. Even more to the point, the Excise Assistant Deputy Minister, who headed the Project Team, delegated his other duties, and devoted his energies totally to the GST.

Moreover, the ADM cloned himself. As the project picked up momentum, he named one of his Directors General, "GST Project Director". The Project Director had the same authority as the ADM, thereby significantly reducing possibilities for decision-making bottle-necks. However, there was also a division of labour. The ADM focussed particularly on external issues (e.g. dealings with central agencies), thereby "keeping the road clear". The Project Director's job was to see that all the different strands of the project came together, to "make sure all the Excise wagons were going down the road in the same direction".

And a crucial organizational unit, reporting to the Project Director, was the GST Secretariat. This group was, in many ways, the nerve centre and crisis manager for the project. It did the coordination legwork; it was the immediate servant of the Deputy, the ADM, and the Minister's office; it serviced the senior committees (internal and interdepartmental). And quite crucially, it was the gateway to "the centre": the Secretariat worked assiduously to make sure that central agencies like Finance, the Privy Council Office, and Treasury Board Secretariat were as plugged in as possible about where Excise was, **and** about problems, concerns and emergencies that might be lurking in the bushes.

Corollary 1: If you are running a large project, get rid of as many other duties as possible so you can pay proper attention to the project.

Corollary 2: Don't be afraid to share responsibility if that's what it takes to make the project more manageable.

Corollary 3: Make sure that somebody has the authority, responsibility, time and resources to "integrate" the project components, to ensure that everything comes together when it should, to manage crises, and to honestly keep all interested parties informed and up-to-date.

Corollary 4: Have a rigid deadline and don't deviate from it. It focusses minds and efforts.

Corollary 5: Get as much of your team under one roof and as close together as possible. Otherwise, communications will assuredly suffer.

Corollary 6: Your key managers should have training, or better still, experience, in project management.

Lesson 3: Delegating ownership builds commitment, sustains morale and gets results.

"Ownership" was a key to the GST launch. The managers responsible for the different project streams were clearly and explicitly told just that: they were responsible. They were made part of the original planning processes for their areas. They were told it was up to them to see that everything got done that needed to get done, **and** they were given the decision-making freedom necessary to do so. As a result, Excise managers and staff knew – really knew – that their work counted. They responded accordingly.

But delegating ownership, real ownership, can be a scary thing. It requires real trust, both up and down the hierarchy.

Excise started off at a bit of an advantage here. The organization was already pre-disposed – by its own history, the deficiencies of the FST, and the collective professional pride of its staff as tax administrators – to approach the GST enthusiastically. This, plus the close long-term ties among most of the Excise old hands, made delegation less threatening to senior management than it might have been in some other organizations.

But there were also problems. In some areas (e.g. publications, training) there was multiple ownership. Different groups owned different parts of the activity. Sometimes this occurred within the Excise Project Team itself; sometimes the problem was between Excise and the Department's corporate support units. This sort of confusion is probably inevitable in any large project, but the pressures surrounding the GST launch left little leeway for decision-making confusion and turf battles.

Fortunately, the urgency of the exercise, combined with the overall project enthusiasm within the Department, tended to provoke solutions. But there is no question that the Deputy Minister's Kitchen Cabinet meetings, her stocktaking sessions, and the continual badgering by the Project Director, kept matters from getting out of hand. Nevertheless, it is probably not unfair to suggest that more attention might well have been given to areas where ownership was not unequivocal, and to approval and coordination mechanisms to avoid the problems from the start.

But there was another sort of ownership problem, where ownership was too focussed, too blinkered. This seems to have affected systems development, and has contributed to one of the "less clean" aspects of the launch.

The system hasn't worked quite like it should have. Obviously, there were bound to be problems. A period of debugging is inevitable with any system, and this is a vast, complex system that was developed under far, far less than ideal conditions. Nevertheless, as the system started to handle some of the GST administration tasks that phased-in after January 1, it became obvious that there were more (and more fundamental) problems than expected. Fortunately, by dint of intense corrective efforts, these have been overcome. However, there were a few worried Excise brows during the first half of 1991.

Development of the GST system was a highly complex undertaking, actually a major project in itself. The corporate Systems Planning and Development (SPD) group handled hardware acquisition and software development; Excise's GST Systems Directorate provided SPD with the "business system specifications" that the system had to meet; and the performance requirements, the actual statements of the "tax machinery" chores that had to be done, came to GST Systems from the real systems client, the tax administrators in Program Development (now Excise Operations).

But the process seems not to have worked too well in some areas. The message as to what the system was supposed to do was not quite reflected in the programming. And the prevailing sense is that some of the tax administrators had not fully recognized that owning their particular piece of the tax machinery meant owning the system too. The tax and the system are integrated.

Corollary 1: Ownership starts with planning. Functional managers should be full and active participants in the planning process.

Corollary 2: Multiple ownership causes problems and confusion. If crisp ownership boundaries cannot be drawn, then you should devise clear decision-making processes, and mutual agreements as to who is to do what for whom, and when.

Corollary 3: A potential risk of rigid ownership is too much compartmentalization. Make sure that the different owners talk to each other systematically and often.

Corollary 4: Computerization and automation cannot really be separated from what is being computerized and automated. Operational staff need to have as much of an ownership stake in the system (for example, taking part in system design and testing) as they do in the processes that they want the system to handle.

Lesson 4: If you expect your regions to deliver, they need to own the project too.

Excise Headquarters planned the tax and managed its launch. However, the GST is really delivered, not by the 900 Headquarters staff in Ottawa, but by the more than 4,000 personnel "in the field". It is in the Excise Regions – or more precisely, in the 47 District offices in those Regions – that most of the direct contacts with the 1.7 million GST registrants will occur. It is District staff who will operate the audit, collection and other GST "tax machinery" programs. And it is in the field where most of the physical expansion in Excise has occurred, where most of the new people, buildings, and equipment are. There are even 20 more Districts now than there were before the GST.

The Regional perspective was part of GST planning almost from the start. The Red Book, the blueprint for Regional implementation of the tax, was prepared by three of the Regional Directors. It outlined the key elements of the task and set out boundaries (e.g. it specified Regional organizational structures and common office setups), but left the Regional Directors the freedom to then get on with the job. In other words, they knew what they had to do by when, but they owned the local processes for getting it done.

A Headquarters unit, the Field Operations Directorate, was set up to provide an Ottawa focal point for the Regions. "Field Ops" helped orchestrate the necessary involvement of other Customs and Excise Branches, and of other departments, in areas like accommodations and staffing. The unit also kept a generally watchful eye on the Regions' overall progress. But by and large, the Regions were indeed left to get on with the job.

Overall, this worked well. The proof is in the final readiness of the organization on January 1. However, the process was not without its problems.

In particular, there was a certain variability in communications. In some areas of program development (e.g. vendor registration), functional Headquarters staff made sure that personnel in the Regions fully understood what was coming; in other areas, there was less clarity from Headquarters. There was also a certain sense of helplessness in the field vis-a-vis the system: they were not involved in systems planning and could not influence it. And there was a gnawing feeling in the Regions that Headquarters wasn't always passing on what it knew about the overall state of policy development (although the Ottawa response is that the Regions thought Headquarters knew more than it really did!).

Fortunately, these difficulties were not fundamental, far-reaching or serious. The historical closeness of managers and staff across the entire Branch, and their highly effective informal communications networks, helped prevent problems from getting out of hand. Moreover, as 1990 progressed, improvements (e.g. more frequent and fulsome Regional Directors' meetings; twice-weekly conference calls that linked each RD with Headquarters program planners) were introduced that strengthened information flows and expedited problem solving.

Corollary 1: Involve your key regional people directly and fully in your planning processes.

Corollary 2: Make sure that the regions are not left wondering. Set up mechanisms for full and timely two-way flow of **all** pertinent information. Make sure the regions have someone to talk to who is dedicated to solving their problems.

Corollary 3: The regions can't implement your programs if they don't understand them. Have your functional program people work closely and personally with their regional counterparts, and make absolutely sure that everybody is on – and stays on – exactly the same wavelengths.

Corollary 4: Your regions will not be able to deliver properly if they do not understand the new technologies you are putting in place. Make sure that they are full participants in developing and testing systems and other new tools.

Lesson 5: Fully and publicly involve all other groups who have a stake in the project. The more hands in the bucket of blood, the better.

Customs and Excise was responsible for setting up the GST administrative machinery and for keeping it running. However, many other departments and agencies were involved, implicated or just plain worried.

On the one hand, the Department's launch plans depended – crucially, and in the most practical of terms – on central support agencies like Public Works, the Public Service Commission, Supply and Services, and Treasury Board Secretariat. On the other hand, "the centre" – the Privy Council Office, Finance, Justice, and so on – needed continual reassurance that Customs and Excise was going to deliver.

A network of senior (i.e. Deputy Minister- and ADM-level) interdepartmental GST committees served all of these purposes, and then some. Led by Finance at first, most of these mechanisms came under Customs and Excise leadership when the government's GST planning focus shifted from policy to administrative preparations.

The committees served to orchestrate senior-level commitment from other departments when it was necessary to do so. They helped Excise to get support and resources from the centre. They also helped resolve problems and the occasional dispute or two. And they generally seem to have reassured the centre that Excise was on the ball.

Ultimately, in a broad sense, the committees served to "manage expectations". They helped to distribute specific responsibilities for the project to everyone who should have had responsibilities, and to do so in front of everyone else who had a role. In other words, it became very obvious to all, as to who would be able to claim credit for success and who could be blamed in case of failure.

But there was more to Excise's interdepartmental relationships than committees. Historically, the Branch had not usually been very visible to the "centre". But during the GST project, it was very visible indeed. Excise (indeed, Customs and Excise as a department) worked very hard, on a day-to-day basis, and at senior levels, to make sure that, on the one hand, it knew about embryonic concerns and worries in the Ottawa community, and on the other, to make sure that central agencies really knew how things were going. In this latter context, the idea, consciously and deliberately, was to try to be ahead of the game, and to "not have the centre come to us because they heard some rumblings that we hadn't passed on".

There were several thrusts to this. For example, the ADM devoted almost all of his time to external relationships, and to "keeping the road clear" for the Branch to follow. As well, an explicit objective of the Project Team's Secretariat was to develop and maintain open and productive working level relationships with central agencies. (One of the most useful

initiatives in this regard was to have the Treasury Board GST analyst actually work on the Secretariat's premises for several months, with full access to all necessary materials and information.)

And, of course, all of this really just paved the way for the **operational** interdepartmental contacts, the constant day-in, day-out cooperative efforts that Excise needed from other agencies, in Ottawa and in the Regions, to actually get things done.

Corollary 1: Recognize that you depend on other agencies for support. Make someone explicitly responsible, up front and from the beginning, for fostering open relationships with these other agencies and for keeping everybody's expectations at realistic levels.

Corollary 2: In addressing Corollary 1, remember that honesty, trust and openness are not the best policy: they are the only policy.

Lesson 6: Consult your clients. Your success depends on them, and they may know a thing or two.

At first glance, taxpayers hardly seem to be "clients" in the usual sense of the word: they are simply required to pay the tax to the satisfaction of the administrating agency. However, the argument can be turned on its head: if taxpayers do not know or understand what to do, if they find administrative requirements too onerous, or if they simply refuse in large numbers to cooperate, then the administrating agency itself is in trouble.

Despite its basic simplicity, the GST has a lot of complications “around the edges”. It also was (and still is) highly unpopular. These are exactly the conditions where compliance can become problematic.

There were really two related issues here for Excise. The first was to educate the clientele about the tax and about Excise itself; the second was to educate Excise about the clientele.

Thus, a major element in Excise’s launch preparations was a whole suite of information and education programs. These included a host of publications; free telephone enquiry services throughout the country; a program to provide advice directly to companies on their GST preparations; seminars to just about any group that wanted one; helpful media advertising campaigns.

Each of these initiatives was a substantial undertaking on its own. Most suffered from relative lack of vendor interest until it finally became clear, in the fall of 1990, that the GST might really become law. And then Excise was swamped.

This late take-off in vendor education, although not the Branch’s fault, was a disappointment. Excise had planned on having a full year to bring its clients up to speed on the GST. Nevertheless, businesses have not fared too badly in coping with the tax, and the vendor education programs seem to have established the Branch as a fair and helpful presence amongst the vendor community.

But Excise still does not know that community very well. Under the FST, the Branch had fairly close relationships with about 75,000 clients, mostly in the manufacturing sector. Now, suddenly, there are 1.7 million GST registrants, involved in just about every type of business

endeavour imaginable. Part of Excise's GST preparation, then, was to try to get to know that community better, and to solicit its views on various aspects of the tax preparations.

These efforts included a substantial consultations program targeted at business associations, and the establishment of external advisory committees reporting to the Minister and to the Deputy. The result has been the beginning of a broader client understanding by Excise. As well, the Branch has received many highly constructive suggestions for policy and procedural improvements, and for clearer and more useful publications, forms and documents.

The task is not over, though. Excise has a long, long way to go in establishing itself with its new clientele, and it has made client service a priority planning consideration for the foreseeable future.

Corollary 1: If your project depends on your clients' behaviour, it is your responsibility to make sure that they are educated.

Corollary 2: Your clients live in the real world. If possible, consult them early enough so that you can use their advice in designing whatever it is you are designing. Precious time spent at the front end consulting and focus-testing virtually always saves much more time and heartache at the back end.

Corollary 3: Close the loop on all consultations, that is, give the clients the results (good or bad) for each matter that they, the clients, have raised.

Corollary 4: No one speaks your clients' language like they do. Get their help in drafting the documents and materials they will have to understand.

Lesson 7: Managing organizational change is more difficult than managing a project. Make it an equal part of your plan from the start.

To Excise, the GST launch was more than just a project: it was the effective end of one organization and the beginning of a much larger and vastly different new one. The closely-knit, staid old Excise Branch has now suddenly more than tripled in size; its clientele has increased by a factor of twenty; it has moved from being not quite technologically primitive to become a fully wired-up. computer-dominated organization.

Excise found the "first-order" elements of change, those that can be managed more or less like other project tasks, relatively easy to handle. Thus, for example, acquiring new accommodations all across the country or purchasing personal computers for everyone, may have been large tasks with their own substantial managerial challenges, but they were conceptually straightforward and easy to grasp.

But with the many GST "first-order" changes have come a host of other "softer" changes. There are many, many new people in the Excise organization. The tax is new and the clientele is new. The old familiar ways of administering the FST have been superseded by automated procedures that are controlled by computers rather than tax specialists. The field is a much bigger organization than Headquarters has ever been responsible for; the District offices have mushroomed in numbers, size and program responsibility beyond anything Regional offices have ever managed.

All of these factors mean major changes in how staff relate to each other and their clients, in the Branch's underlying philosophy and corporate culture, in management practices and procedures, even in what being an Excise manager really means. Senior Branch executives admit that they should have thought much more fully about these "soft" elements of change from the very beginning. And once the project really got going, the overwhelming pressures of the day made it very difficult to stand back and ask some of the fundamental questions involved.

This is over, though. The Branch has instituted a thorough self-examination of its roles, philosophies and requirements. Significantly, the specifics of this "improving-the-way-we-conduct-business" examination are being developed from the bottom-up, rather than being imposed by senior management. Significantly, too, the first and primary focus is on the field: what it needs, what it does, and how it can provide service. The exercise is still under way, and the GST-induced "soft" changes will reverberate around the Branch for a long time to come. But Excise surely is a different place.

Corollary 1: Think about **all** aspects of change from the very beginning. Understand that what you are doing can have profound effects on organizational values, philosophies and behaviour. As difficult as it may be, plan to manage these changes with as much care as you plan your program or project tasks.

Corollary 2: Change can be hard on people. If possible, involve staff in decisions affecting their environment. At the very least, reassure them, keep them informed, and help them cope.

Corollary 3: Corollary 2 cannot be fulfilled if managers do not know what is happening. Make sure managers know what change is, how it affects people, and how to manage the change process and the stress that results.

Corollary 4: Don't think that new technology (especially computer technology) can just be dumped on someone's desk. Technology can have a major impact on people's activities and self-perceptions, and they should be prepared for what is going to hit them.

Lesson 8: It helps to have money and luck.

A couple of "external" factors worked in Excise's favour.

In the first place, the GST was too important to the government to fail. This meant that, during the project phase, reasonable requests for resources were unlikely to be refused. However, now that the tax is in place, Excise will have to bear the full force of expenditure restraint in the same way as other departments and agencies.

As well, from a public relations standpoint, the project phase and the early post-launch days benefitted from public and media attention being diverted elsewhere. This is not to deny all of the attention the tax did receive, particularly during the final days leading to Royal Assent. However, the Meech Lake accord, the Oka crisis and the Gulf War really did attract a lot of attention that Excise was pleased to do without.

And, in Closing, the Real Reason we Succeeded

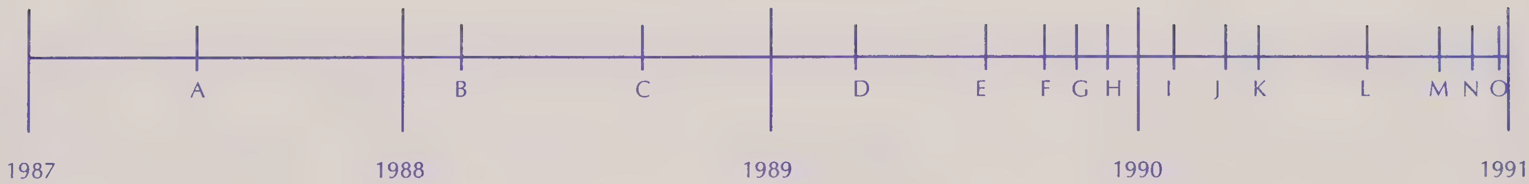
In final conclusion, it seems appropriate to quote the Deputy Minister of Customs and Excise from her 1990-91 Annual Management Report to Treasury Board. Of the GST, she said the following:

"We were ready on January 1, when it ought not to have been possible to be ready. Because all across the country, in our department and others, thousands of people became personally committed to ensuring we were ready. They worked nights and weekends for months on end; they lay awake at night worrying about what more they could do to improve the odds. And it worked."

Appendix One

Some GST Milestones

Legislative Events

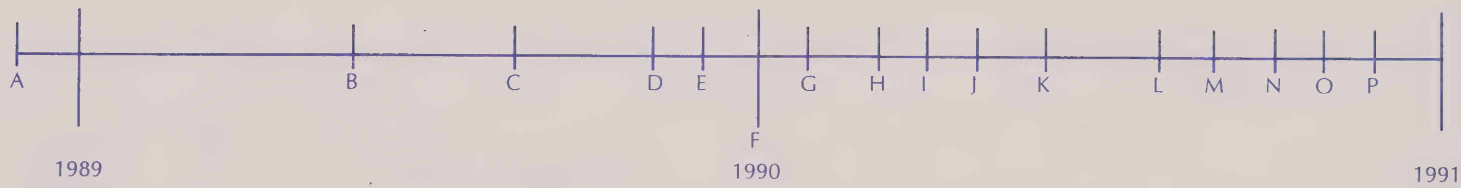


1987	A.	**June**	:	White Paper on Sales Tax Reform: government announces intention to adopt multi-stage sales tax (MSST) (June 17).
1988	B.	**March**	:	Report of Standing Committee of Finance (Blenkarn Committee) on options for MSST (March 16).
	C.	**October**	:	Auditor General's report expresses concern about Excise ability to manage GST (October 24).
1989	D.	**April**	:	Speech from Throne states government's intention to proceed with new sales tax (April 3).
			:	Federal Budget announces that a 9% GST will replace the FST on January 1, 1991.
	E.	**August**	:	Finance Minister releases Technical Paper on the GST (August 8).
			:	Blenkarn Committee begins public hearings on Technical Paper.
	F.	**October**	:	Speaker's ruling on government's GST ads (October 10).
			:	Draft GST legislation released (October 13).
			:	Blenkarn public hearings on Technical Paper completed (October 26).
	G.	**November**	:	Blenkarn Committee report on the Technical Paper.
	H.	**December**	:	Second Technical Paper tabled in House of Commons (December 19).
1990	I.	**January**	:	GST legislation (Bill C-62) tabled in House.
	J.	**February**	:	Legislation sent to Blenkarn Committee.
	K.	**April**	:	Bill C-62 passed by House of Commons (April 10).
	L.	**August**	:	Quebec announces it will harmonize its PST with the GST; Quebec to administer the GST within the province.
	M.	**September**	:	"Transitional" GST measures come into effect for goods and services being provided after 1990, but for which payments are made before 1991. (September 1).
	N.	**November**	:	Several draft regulations released by Minister of Finance (November 1).
	O.	**December**	:	GST legislation receives Royal Assent (December 17).
			:	Amendments to legislation after Royal Assent, including compulsory taxi driver registration.
			:	Finance Minister's announcement of policy on Indian purchases (December 13).
			:	Revenue Canada releases draft regulations (December 11 and December 21).
			:	GST regulations approved by Governor-in-Council (December 18).
			:	GST regulations published in the Canada Gazette (December 31).

Planning and Organization Milestones

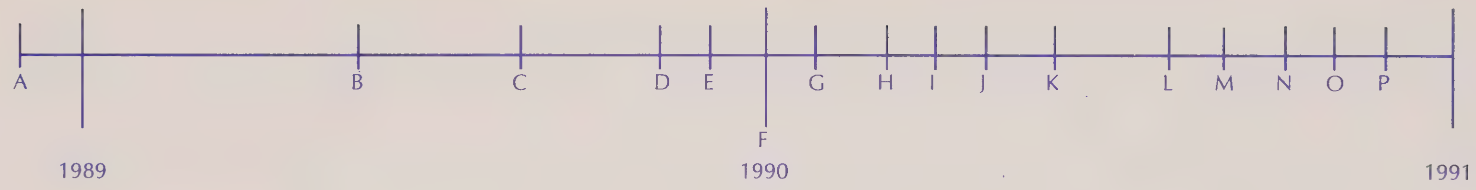
1988	A. **January**	:	Preparation of "Blue Book" (Report of the Commodity Tax Review Group) began.
	B. **July**	:	Blue Book completed.
1989	C. **March**	:	Completion of the "Red Book", a guide for Excise Regional Offices for implementation of the new tax.
	D. **April**	:	Formal launch of Excise GST Project Team.
	E. **June**	:	Excise Assistant Deputy Minister (ADM) announces he will concentrate on GST; delegates FST and other non-GST duties.
		:	Approval of GST Project Team's organization and 1988-89 funding.
	F. **September**	:	GST Secretariat established.
	G. **October**	:	M. Burpee named Project Director.
	H. **November**	:	GST Implementation Plan ("Master Plan") submitted to ADM by consultants.
1990	I. **February**	:	Excise Federal-Provincial Relations Directorate established to work on sales tax harmonization with provinces.
	J. **March**	:	First meeting of Deputy Minister's Advisory Committee.
		:	Deputy Minister holds first project "stocktaking" meeting (March 14).
	K. **April**	:	First meeting of Minister's Advisory Committee.
	L. **May**	:	First Treasury Board Submission approved (May 24).
	M. **June**	:	Second stocktaking meeting.
	N. **August**	:	Regional "desks" established at Headquarters as focal point for Regional concerns.
		:	First meeting of Summerside Steering Committee.
	O. **September**	:	Third stocktaking meeting (September 20).
	P. **October**	:	Second Treasury Board Submission (October 26).
	Q. **November**	:	Fourth stocktaking meeting (November 15).

Program Milestones



1988	A.	**December**	: Systems begins study of system structure and architecture.
1989	B.	**June**	: Specifications developed for registrant identification. : Consultants report on system risk assessment.
	C.	**September**	: Consultations Program launched. : Overall formalized system design published (September 15). : Bids for mainframe closed (September 11).
	D.	**November**	: First mainframe computer in place.
	E.	**December**	: Registration form finalized.
1990	F.	**January**	: Interim Processing Centre announced for Ottawa (January 19).
	G.	**February**	: GST tax credit form mailed out by Taxation.
	H.	**March**	: Staffing begins. : Training begins in Regions.
	I.	**April**	: Registration begins with mail-out of 1.9 million registration kits (April 17). : Telephone and walk-in enquiries begin. : Advisory Program begins.
	J.	**May**	: Announcement of Summerside as site of permanent processing centre. : Resolution of court case for Interim Processing Centre; contract awarded. : Announcement that duty-free shops will provide tourist rebates (May 15). : Announcement of Quick Method of simplified accounting for small businesses (May 31). : Registration acknowledgement kit finalized for distribution. : Electronic database set up.
	K.	**June**	: Mail-out of first registration reminder notice to businesses that had not responded to initial registration mail-out in April. : GST TV ads begin. : FST-GST transitional rebates memoranda released.
	L.	**August**	: Mail-out of second registration reminder notices. : Business information seminars begin.

Program Milestones (continued)



1990

M. **September** : Consumer Information Office officially established (September 12).

N. **October** : First seven election forms released.
: Sign program launched (October 30).

O. **November** : Interim Processing Centre officially opened in Ottawa (November 8).
: Diversion of Advisory Program resources to higher priority areas, particularly registration.
: Sign program orders start arriving.
: Tabloid mailed to all businesses in Canada, outlining five basic steps to preparing for the GST.

P. **December** : Production of tax return forms, FST rebate claim forms, and other documents for January return filers.
: Completion of arrangements with banks to handle GST returns.
: Mail-out of FST Rebate package.
: Minister announces selection of actual site for Summerside processing centre (December 18).
: Mail-out to all pre-registrants, confirming that they are now legally registered (beginning December 21).
: Special mail-out to taxi companies.
: Second mainframe computer delivered.
: Various GST rebate forms completed and distributed to Regions.
: Contract signed with duty-free shops to handle tourist rebates.
: Minister announces compliance and enforcement policy (December 20).
: First phase of system software development finalized.

Appendix Two

The Clean Launch – The Customs and Excise GST Management Team

Deputy Minister: Ruth Hubbard

Assistant Deputy Minister, Excise/GST: Dick Fulford

GST Project Director: Mike Burpee

Deputy Minister's Special Advisor: Sal Badali

Acting Assistant Deputy Minister, FST: Ken McCammon

Excise Branch GST Project Team

Program Development Directorate

Director General
Brian Kimmons

Director, Compliance
Marj Ogden

Director, Audit
Bob Gagne

Director, FST Rebates
Dick Courneyea

Director, Small Business
Mike Smith

Chief, Enforcement and Investigations
Charles Lafrenière

Policy and Legislation Directorate

Director General
Stuart Watson

Director, General Tax Policy
Les Jones

Director, Special Sectors
Adrian Venne

Director, Financial Institutions
Jim Daman

Director, Technical Information
Lorne Lawson

Director, Legislation/Regulations
Brian McGivern

GST Secretariat

Director
Elizabeth Shaver

Federal-Provincial Relations

Director General
James Lynn

Director
Jacques Guevremont

Consultations Directorate

Director
Brian Shackleton

Personnel Operations

Director
Thérèse Gervais

Planning and Support

Director
Bob Thompson

Summerside Processing Centre

Director General
Ray Doucet

Interim Processing Centre

Director
Jean-Pierre Lortie

Excise Branch GST Project Team (continued)

GST Systems Directorate

Director General
George Kirkpatrick

Director, Business Systems
Rod Patterson

Director, Operational Services
Boyd Butler

Director, Management Services
Charles Murphy

Field Operations Directorate

Director General
Robert Tittley

Director, Implementation and Operations
Charlaine MacLean

Appeals

Director General
Brian Burke

Regional Directors

Atlantic
Ron Young

Quebec
Pierre Gagnon

Montreal
Assaad Rizk

Ottawa
Dan Trahan

Toronto
Leon Kluger

Southwestern Ontario
Norma Earl

Central
Moe Jordon

Alberta
Clarence Taylor

British Columbia
Lloyd Hawtin

Other Customs and Excise Branches

Communications Branch

Director General
Larry Gordon

Departmental Assistant (GST), Minister's Office
Bob Quinn

Director, GST Communications
Jean Sattar

Manager, Community Relations and Production
Doug Waldie

Personnel Administration Branch

Assistant Deputy Minister
Murdoch Reteff

Legal Services

Senior Counsel
Beverley Wilton

Corporate Management Branch

Assistant Deputy Minister
Adair Banerd

Director General, Capital Assets Programs
Real Levesque

Director, GST Special Projects Unit
Jim Graham

Director, Administration Directorate
Denis Meunier

Director General, Systems Planning and Development
David Marshall

Director, GST Automation
Bill Kearnan

Customs GST Implementation Task Force

Assistant Deputy Minister, Customs Operations
Hank Giles

Director
Greg Goatbe

"We were ready on January 1, when it ought not to have been possible to be ready. Because all across the country, in our department and others, thousands of people became personally committed to ensuring we were ready. They worked nights and weekends for months on end; they lay awake at night worrying about what more they could do to improve the odds. And it worked."

Ruth Hubbard
Deputy Minister
Revenue Canada
Customs and Excise

Implementation of the GST required completely new processes, policies, infrastructures, and even physical facilities. The result for Excise Branch? A hard-won knowledge base about program management on a huge scale. Experience in managing massive organizational change involving structure, culture, and even mandate. An education in dealing with the external forces generated by highly visible government initiatives with consequent political pressures and strong public opposition.

Bev Dewar
The Principal
Canadian Centre for
Management Development